

Electricity Act 1989
Section 11A

MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID ELECTRICITY TRANSMISSION LIMITED'S LICENCE GRANTED UNDER SECTION 6 OF THE ELECTRICITY ACT 1989 TO IMPLEMENT THE ELECTRICITY TRANSMISSION PRICE CONTROL REVIEW (TPCR4) ROLLOVER

Whereas –

1. National Grid Electricity Transmission Limited (“NGET”) has been granted an Electricity Transmission Licence (the “Licence”) under section 6 of the Electricity Act 1989 (the “Act”) subject to the conditions contained in the Licence.
2. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority (the “Authority”) gave notice on 27 January 2012 (the “Notice”)¹ that it proposed to make modifications to the following special conditions of the Licence:
 - a. Special Condition D2: Restriction on Transmission Network Revenue;
 - b. Special Condition D3: Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation;
 - c. Annex A to Special Condition D3: Supplementary Provisions;
 - d. Special Condition D4: Pass Through Items;
 - e. Special Condition D5: Incentive Payments;
 - f. Special Condition D9: Capital Expenditure Incentive and Safety Net; and
 - g. Special Condition AA5A: Balancing Services Activity Revenue Restriction.

(together the “Conditions”) to implement the Authority’s decision on the Transmission Price Control Review (TPCR4) Rollover: Final Proposals (Ref: No 168/11) dated 28 November 2011.²

3. In accordance with section 11(A) of the Act, the Notice stated that it proposed to make modifications; set out the proposed modifications and their effect; stated the reasons why the Authority proposed to make modifications; and specified 24 February 2012 as the date upon which representations with respect to the proposed modifications could be made.
4. Prior to the close of the consultation period the Authority received a response from NGET containing representations on the proposed modifications in the Notice. NGET’s response has been placed in the Ofgem library and on the Ofgem website.³

¹ <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Roll-over/Documents1/TPCR4%20Rollover,%20Section%2011A%20Statutory%20Consultation%20-%20National%20Grid%20Electricity%20Transmission%20PLC.pdf>

² http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Rollover/Documents1/TPCR4_Rollover_Final_Proposals.pdf

³ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=79&refer=Networks/Trans/PriceControls/TPCR4Roll-over>

5. The Authority has carefully considered NGET's representations in relation to the proposed modifications and, as a consequence of those representations, has decided to amend the proposed modifications set out in the Notice in the manner set out in Schedule 1 and Schedule 2 to this Modification.
6. Schedule 1 to this Modification contains the Conditions (as amended) that will, once 56 days have passed from the publication of this modification, have effect on and from 1 April 2012.
7. In accordance with section 11(A) of the Act, Schedule 2 states the reasons and the effect of any differences between the proposed modifications set out in the Notice and the Conditions set out in Schedule 1.

Now therefore

In accordance with the powers contained in section 11A of the Act and for the reasons set out in the Notice and Schedule 2 of this Modification the Authority hereby modifies the Conditions in the manner set out in Schedule 1 of this Modification with effect on and from **1 April 2012**.

This Modification constitutes notice pursuant to section 26 of the Act of the reasons for amending the Conditions.

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

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



27 February 2012

Schedule 1 to Section 11A Modification

Special Condition D2: Restriction on Transmission Network Revenue

Transmission Network Revenue Restriction

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

Formula for Transmission Network Revenue Restriction

2. In respect of the relevant year commencing 1 April ~~2007-2012~~ and each subsequent relevant year t, maximum revenue shall be calculated in accordance with the following formula:

$$TO_t = PR_t + TIRG_t + PT_t + IP_t + CxIncRA_t + ~~IE_t~~ + DIS_t + ~~ER_t~~ + LC_t + TS_t - K_t + TOIAT_t + TOInct$$

where:

TO_t means maximum revenue in the relevant year t;

PR_t means base transmission revenue, which shall, in respect of the relevant year commencing 1 April ~~2007~~2012, be calculated as:

$$\underline{PR_t = RBT \times PIT_t} \quad \underline{PR_t = RBT \times RPIF_t}$$

where:

RBT shall take the value ~~£1263.8m~~£987,300,000 (being in ~~2004~~2009/10 prices). This takes into account a provisional aggregate 2012/13 TII allowance of £313.2m (in 2009/10 prices);

~~;~~ and;

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

$$\underline{RPIF_t = RPIA_{t-2} \times (1 + GRPIF_{t-1}) \times (1 + GRPIF_t)}$$

where:

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

$$\text{GRPIF}_t = 0.75 * \text{GRPIF}_c + 0.25 * \text{GRPIF}_{c+1}$$

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

where:

RPI_t means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April to March in relevant year t.

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

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

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

PIT_t 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:

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

and, in the relevant year commencing 1 April 2008 and each subsequent relevant year, PR_t shall be calculated in accordance with the following formula:

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

where:

PR_{t-1} means base transmission revenue in relevant year t-1 and shall be calculated in the same manner as PR_t save that references to the relevant year t shall be replaced by references to the relevant year t-1, and any other references shall be construed accordingly;

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the 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; and

X shall take the value two;

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

PT_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year t in respect of allowed pass through items as derived in accordance with special condition D4 (Pass Through Items);

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

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

~~means the capital expenditure incentive 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 D9 (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 $CxIncRA_t$ shall take the value zero;~~

~~IE_t means the allowance made in respect of the relevant year t representing the estimated costs incurred by the licensee in the relevant year in association with the issuance of new equity and shall take the value set out in the table below:~~

IE_t in the Relevant Year commencing 1 April	2007	2008	2009	2010	2011
National Grid Electricity Transmission plc	Nil	Nil	Nil	Nil	Nil
Scottish Hydro Electric Transmission Ltd	Nil	Nil	£3,250,000	£2,625,000	Nil
SP Transmission Ltd	Nil	Nil	Nil	£2,500,000	Nil

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

- (a) the total amount charged to the licensee in relevant year $t-1$ by Scottish Hydro-Electric Transmission Ltd and SP

Transmission plc in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC); and

- (b) the total income recovered by the licensee in respect of excluded services in relevant year t-1 from customers in the respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd and SP Transmission plc.

~~ER_t means the price control extension reconciliation revenue adjustment term, which in the relevant year commencing 1 April 2007 shall be calculated in accordance with the following formula:~~

$$\underline{ER_t = RER_t \times PIT_t}$$

~~where:~~

~~RER_t means the allowance in respect of the revenue reconciliation adjustment and shall take the value £700,000 (in 2004/05 prices); and~~

~~PIT_t shall take the same meaning as set out in the definition of the term PR_t above.~~

In respect of the relevant year commencing 1 April 2008 and each subsequent relevant year t, ER_t shall take the value zero;

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

~~means the revenue adjustment term, whether of a positive or of a zero 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 3 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_t shall take the value zero;~~

TS_t

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

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

TOInc_t is derived from the following formula:

$$\underline{TOInc_t = TIIIInc_t \times RPIF_t}$$

where:

TIIIInc_t is the value of the revenue adjustment for the relevant year t (in 2009/10 prices) due to the application of the capital expenditure incentive regime 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</u>	<u>2012</u>
<u>commencing on 1</u>	

<u>April</u>	
<u>TIIInc_t</u>	<u>-£4,140,000</u>

~~means, for each relevant year t, the adjustments to revenue as defined in special condition D11 / J12 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) means, for each relevant year t, the aggregate of the annual revenue allowances for each transmission investment project i specified in Annex A to special condition D11 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) and shall be calculated in accordance with that special condition; and~~

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

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

where:

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

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

~~means the maximum revenue in the relevant year $t-1$ except in the relevant year commencing 1st April 2007 where it shall be the maximum revenue (M_t) for the relevant year commencing 1 April 2006 as defined by Part 1 of special condition AA5A (Revised Restriction on Revenue) in the licence in force on 31 March 2007;~~

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

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

$TOLAT_t$ means, in respect of each relevant year t , the amount of any income adjustment determined by the Authority in accordance with paragraph 4.

3. For the purposes of paragraph 2, LC_t shall comprise the capital expenditure and operating expenditure costs incurred in the period 1 April 2007 to 31 March 2012, and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee against the following cost categories:
 - (a) underground cable tunnels up to a cap of £60,000,000 (in 2004/05 values);
 - (b) upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme;

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

- 4 (a) Where the licensee considers, and can provide supporting evidence, that it has incurred or saved costs and/or expenses in excess of £1,000,000 as a result of one or more transmission owner income adjusting event(s) relating to relevant security costs, the licensee shall give notice of the costs and/or expenses incurred or saved as a result of such event or events to the Authority. A notice provided to the Authority in relation to costs and/or expenses shall give particulars of:

- (i) the event(s) to which the notice relates and the reason(s) why the licensee considers each such event to be a transmission owner income adjusting event;
 - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been incurred or saved as a result of each such event and how the amount of these costs and/or expenses has been calculated;
 - (iii) the amount of any allowed income adjustment proposed by the licensee as a consequence of each such 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 below fully to assess the event(s) to which the notice relates.
- (b) A notice under paragraph 4(a) shall be given by the licensee to the Authority as soon as is reasonably practicable after the occurrence of the transmission owner income adjusting event(s) to which it relates.
- (c) If the Authority considers that the analysis or information provided in the notice under paragraph 4(a) above is insufficient to enable both the Authority and the relevant parties referred to in paragraph 4(f) below to assess whether the transmission owner income adjusting event(s) has occurred and/or the amount of any allowed income adjustment that should be determined by it, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.
- (d) The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
- (e) Any notice under paragraph 4(a) should identify clearly whether any of the information contained in it is confidential. 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 any person to which it relates; and
 - (ii) the extent to which the disclosure of the information is necessary for the purposes of enabling the relevant parties referred to in paragraph 4(f) below fully to assess the event to which the notice relates.
- (f) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable (the “relevant parties”)):
- (i) whether any or all of the costs and/or expenses set out in any notice given under paragraph 4(a) have been incurred as a result of one or more transmission owner income adjusting event(s);

- (ii) 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 the income adjusting event(s) had not taken place and, if not, what allowed income adjustment would secure that effect; and
 - (iii) the periods, if any, over which any adjustment to the licensee's allowed income should apply.
- (g) In relation to relevant year t, the allowed income adjustment (TOIAT_t) shall be:
 - (i) the value determined by the Authority pursuant to paragraph 4(f) above; or
 - (ii) if the Authority has not made a determination pursuant to paragraph 4(f) within three months of the date on which notice under paragraph 4 (a) above was provided to the Authority, or if the Authority has requested further information from the licensee in accordance with paragraph 4(c) above and the Authority has not made a determination within three months of receiving such further information from the licensee, the amount of the allowed income adjustment proposed in the notice given to the Authority under paragraph 4(a); or
 - iii) in all other cases zero, including situations where the Authority has requested additional information from the licensee in accordance with paragraph 4(c) above and the licensee has not provided that information.
- (h) The Authority's decision in relation to any notice given under this paragraph shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (i) The Authority may revoke an approval of an income adjusting event and allowed income adjustment, 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.

Special Condition D3: Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation

Part 1 – TIRG Revenue Adjustment Calculation

- 1. 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 Annex A to this condition.

- 2. For each TIRG relevant year t, the annual revenue allowance for each transmission investment project i specified in Annex A 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 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_tⁱ 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; and

ATIRG_tⁱ 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.

IPTIRG_t

3. For the purposes of paragraph 2, the term IPTIRG_tⁱ shall be calculated in accordance with the following formula:

$$\frac{IPTIRG_t^i}{CFTIRG_t^i} = RPIF_t \quad \underline{IPTIRG_t^i = CFTIRG_t^i \times ARPI_t}$$

where:

CFTIRG_tⁱ means the forecast preconstruction and contingency costs for the transmission investment project i for TIRG relevant years t=p to t=-1 (where p ≤ -1) and shall have the value specified in Annex A to this condition for each TIRG relevant year t, and where no value is specified in Annex A to this condition for a TIRG relevant year t shall have the value of zero; and

~~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:~~

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

~~where:~~

~~RPIF_t shall have the same meaning as in special condition D2 (Restriction on Transmission Network Revenue).~~

~~RPI_t shall have the same meaning as in paragraph 3 of special condition D2 (Transmission Network Revenue Restriction).~~

TIRGIncAd – Income Adjusting Event

- 4.(a) For the purposes of this paragraph, a TIRG income adjusting event means an event or circumstance occurring in the pre construction 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_t);
 - (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 $TIRGI_{incAd}^i$ shall be the $TIRGI_{incAd}^i$ 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.

FTIRG_t

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

$$FTIRG_t^i = CCTIRG_t \times (FTIRGC_t^i + AFFTIRG_t^i) \times RPIF_t + (FTIRGDepn_t^i + AFFTIRGDepn_t^i) \times RPIF_t$$

4. _____

$$FTIRG_t^i = CCTIRG_t \times (FTIRGC_t^i + AFFTIRG_t^i) \times ARPI_t + (FTIRGDepn_t^i + AFFTIRGDepn_t^i) \times ARPI_t$$

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_tⁱ 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 Annex A to this condition for each TIRG relevant year t, and where no value is specified in Annex A to this condition for a TIRG relevant year t shall have the value of zero;

$AFFTIRG_t^i$ means one or more adjustment 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 accordance with paragraph 6;

~~$RPIF_t$ shall have the same meaning as in special condition D2 (Restriction on Transmission Network Revenue).:~~

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

$FTIRGDepn_t^i$ 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, $FTIRGDepn_t^i$ shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project i, $FTIRGDepn_t^i$ shall have the value specified in Annex A to this condition for each TIRG relevant year t, and where no value is

specified in Annex A to this condition for a TIRG relevant year t shall have the value of zero;

$AFFTIRGDepn_i^i$ means one or more adjustment to the depreciation value for the transmission investment project i for the TIRG relevant years t=0 to t=n ($FTIRGDepn_i^i$) as a result of a TIRG asset value adjusting event and each adjustment shall be determined by the Authority 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 ($FTIRGC_i^i$);
- (ii) are expected to be efficiently incurred or saved; and
- (iii) can not 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 _{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;
 - (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 special condition;
 - (v) the amount of any AFFTIRG _{i} ^{i} adjustment proposed as a consequence of that event and how this AFFTIRG _{i} ^{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 ^{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 ^{i} adjustment proposed as a consequence of that event and how this AFFTIRGDepn ^{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 ^{i} adjustment in respect of the transmission investment project i ; and
 - (iv) a AFFTIRGDepn ^{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 ^{i} and AFFTIRGDepn ^{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 ^{i} and AFFTIRGDepn ^{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; and
- (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.

ETIRG_t

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

$$ETIRG_t^i = \left(CCTIRG \times \left(ETIRGC_t^i \times SAFRTIRG^i \right) \times RPIF_t \right) + \left(Dep_t^i \times SAFRTIRG^i \times RPIF_t \right)$$

~~5.~~ _____

$$6. \quad ETIRG_t^i = CCTIRG \times ETIRGC_t^i \times SAFRTIRG^i \times ARPI_t + Dep_t^i \times SAFRTIRG^i \times ARPI_t$$

7. where:

CCTIRG shall have the meaning given in paragraph 5;

$ETIRGC_t^i$ 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 Annex A to this condition for each TIRG relevant year t, and where no value is specified in Annex A to this condition for a TIRG relevant year t shall have the value of zero

$SAFRTIRG^i$ 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:

$$SAFRTIRG^i = \left(\frac{SAFTIRG^i}{ETIRGORAV^i} \right)$$

where:

$SAFTIRG^i$ 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; and

$ETIRGORAV^i$ 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 Annex A to this condition;

~~$RPIF_t$ shall have the same meaning as in special condition D2 (Restriction on Transmission Network Revenue);~~

~~$ARPI_t$ shall have the meaning given in paragraph 3; and~~

Dep_t^i means the annual depreciation allowance for TIRG relevant year t and shall have the value specified in Annex A to this condition.

8.(a) The Authority shall determine (in consultation with the licensee and such other persons it considers necessary) the value of the term $SAFTIRG^i$ 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 part 2 of this condition.

- (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 Annex A to this condition 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 ($AFFTIRG_t^i$ 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 ($AFFTIRGDepn_t^i$ 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 $SAFTIRG^i$ 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.

ATIRG

8.9. For the purposes of paragraph 2 the term $ATIRG_t^i$ 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 2 - Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation

9.10. For each transmission investment project i specified in Annex A to this condition, 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 $TIRG_{t=0}$ output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project i; and
 - (ii) the $TIRG_{t=n}$ forecast output measures assessed against the forecast output measures in Annex A to this condition 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_t); 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 Annex A to this condition.

~~10.11.~~ 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.

- (a) The output measures specified in Annex A to this condition 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) to this condition) which the Authority is satisfied is expected to cause a material change in the output measures specified in Annex A to this condition 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 an 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.

Annex A to Special Condition D3: Supplementary Provisions

National Grid

England – Scotland Interconnection

East coast and west coast reinforcement combined costs

Pre construction, contingency and construction costs:

project costs (£) 200409/0510 prices	t=p	t=0	t=1	t=2	t=3	t=n
Forecast pre- construction and contingency costs ($CFIRG_t^i$)	2,275,000 1,976,000	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs		13,974,000 12,248,000	29,238,000 25,814,000	34,605,000 30,210,000	29,170,000 24,444,000	13,768,000 12,264,000
Average asset value during construction period ($FTIRGC_t^i$)	n/a	6,987,000 6,124,000	28,144,000 24,848,000	59,111,000 51,603,000	91,018,000 76,271,000	101,708,000 90,601,000
Depreciation during Construction ($FTIRGDepn_t^i$)		0	693,000 612,000	2,180,000 1,903,000	4,074,000 3,414,000	5,204,000 4,636,000

Post construction revenue:

Project costs (£) 2004/05 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV ($ETIRGORAV^i$)	<u>105,983,000</u> <u>94,415,000</u>				
Dep ⁱ _t	<u>5,299,000</u> <u>4,721,000</u>	<u>5,414,000</u> <u>4,721,000</u>	<u>5,414,000</u> <u>4,721,000</u>	<u>5,414,000</u> <u>4,721,000</u>	<u>5,414,000</u> <u>4,721,000</u>
Average asset value during efficiency period ($ETIRGC_t^i$)	<u>103,333,000</u> <u>92,055,000</u>	<u>100,153,000</u> <u>87,334,000</u>	<u>94,739,000</u> <u>82,613,000</u>	<u>89,326,000</u> <u>77,893,000</u>	<u>83,912,000</u> <u>73,172,000</u>

Output measures:

East coast interconnection

All figures are equivalent reactances (X) of the two circuits in each branch connected in parallel in % on 100MVA. The three branches are:

- A tee point to Scottish border (400kV circuit)
- B tee point to Stella West 400kV (400kV circuit)
- C tee point to Blyth 275kV (400kV circuit, and two 400/275kV transformers)

The 'combined figure' is the reactance between the Scottish border and the 275kV network in the NE of England, calculated by:

line A in series with (B' paralleled with C), where:

B' is line B in series with the existing 4 400/275kV transformers at Stella West.

Scope of work	Impedance as at 31 March 2005	Forecast impedance prior to construction start date	Forecast impedance post construction
Reduction in line impedance			
Line A	0.883	0.883	0.721
Line B	0.070	0.070	0.059
Line C	N/A	N/A	1.128
Combined impedance	1.349	1.349	1.045

Scope of work	Circuit ratings as at 31 March 2005	Forecast circuit ratings prior to construction start date	Forecast circuit ratings post construction
	Winter Summer (MVA) (MVA)	Winter Summer (MVA) (MVA)	Winter Summer (MVA) (MVA)
Line A	1390 1110	1390 1110	3070 2420
Line B	1390 1110	1390 1110	3070 2420
Line C	955 760	955 760	1390 1110

All circuit ratings are post-fault continuous capabilities at 50 degrees centigrade operation.

The Line C rating in advance of construction reflects operation at 275kV whereas the rating after construction reflects 400kV operation.

Circuit thermal ratings may differ from the conductor ratings due to limitations in switchgear, down droppers or protection.

West coast interconnection

Project scope	Capability as at 31 March 2005	Forecast capability one year prior to construction	Forecast capability post construction
	kV (MVA)	kV (MVA)	kV (MVA)
Line upgrade from Scotland-England border to Harker	275 (1130)	275 (1130)	400 (2010)

substation			
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England-Scotland interconnection– reactive compensation

Install a 150Mvar mechanically switched capacitor bank at a location to be chosen by the licensee so as to maximise its effectiveness given the particular reinforcements to be undertaken in Scotland.

Special Condition D4: Pass Through Items

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

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

where:

TSP_t means the amount specified to the licensee by SP Transmission Ltd or any successor company in relation to relevant year t pursuant to its transmission licence;

TSH_t means the amount specified to the licensee by Scottish Hydro-Electric Transmission Ltd or any successor company in relation to relevant year t pursuant to its transmission licence;

$TOFTO_t$ means the total of the revenue amounts specified to the licensee by those offshore transmission owners in relation to the relevant year t pursuant to their transmission licences;

$OFET_t$ means an amount equal to the payments made in aggregate by the licensee to electricity distributors with respect to charges for use of the electricity distribution systems by offshore generating stations connected to those systems via embedded transmission systems.

LF_t means the revenue adjustment term, whether of a positive or of a negative value, calculated in the relevant year t in respect of licence fee payments as derived from the formula set out in paragraph 2;

RB_t means the revenue adjustment term, whether of a positive or of a negative value, calculated in the relevant year t in respect of non-domestic rates as derived from the formula set out in paragraph 3;

TSR_t means the revenue adjustment term, whether of a positive or of a negative value, calculated in the relevant year t in respect of revenue earned by the licensee for tower space rental as derived from the formula set out in paragraph 6;

ITC_t means an amount reported by the licensee in relation to relevant year t in respect of the direct costs arising from the participation by Great Britain in any European Union inter-TSO compensation scheme, where the Authority has approved the participation in that scheme in respect of one or more relevant years; derived from the formula set out in paragraph 8.

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

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

Formula for the Licence Fee Revenue Adjustment

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

$$\del{LF_t = (LP_t - LA_t) + \left(L_t \times \left(1 + \frac{I_t}{100} \right) \right)} \quad \underline{LF_t = (LP_t - LA_t)}$$

where:

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

LA_t is derived from the following formula:

$$\del{LA_t = PF_t \times PIT_t} \quad \underline{LA_t = PF_t \times RPIF_t}$$

where:

PF_t ~~is the amount of the licence fee payments allowance for the relevant year t (in 2009/10 prices) as set out and shall take the value set out in the table below:~~

~~is the amount of the licence fee payments allowance for the relevant year t (in 2004/05 prices) as set out:~~

Relevant year t commencing on 1 April	201 4 <u>2</u>
PF_t	£12,794,000 <u>£8,100,000</u>

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

~~PFT_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);~~

~~L_t shall, in respect of the relevant year commencing 1 April 2007, be calculated as the difference between the actual licence fee payable by the licensee in the relevant year commencing 1 April 2006 pursuant to standard condition A4 (Payments to the Authority) (being, for the avoidance of doubt, in pounds sterling in money of the day) and the estimate made in respect of that relevant year of £13,200,000. In the relevant year commencing 1 April 2008 and each subsequent relevant year L_t shall take the value zero; and~~

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

Formula for the Non-domestic rates Revenue Adjustment

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

$$\underline{RB_t = (RP_t - RA_t) - (RP_t - RA_t) \left(\text{Rate}_t \times \left(1 + \frac{I_t}{100} \right) \right)}$$

where:

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

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

$$\underline{RA_t = RV_t \times RPIF_t}$$

where:

RV_t is the non-domestic rates allowance in 2004/05 prices, and shall take the value set out in the table below:

Relevant year t commencing on 1 April	2012
RV_t	£983,000,000

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

~~PIT_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);~~

~~Rate_t shall, in respect of the relevant year commencing 1 April 2007, be calculated as the difference between the non-domestic rates payable by the licensee in respect of the relevant year commencing 1 April 2006 (being for the avoidance of doubt, in pounds sterling in money of the day) and the estimate made in respect of that relevant year of £94,900,000. In the relevant year commencing 1 April 2008 and each subsequent relevant year Rate_t shall take the value zero; and~~

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

~~4. Not used From the relevant year commencing 1 April 2010, RB_t shall take the value zero, unless otherwise directed by the Authority on or before 31 March 2010.~~

4.

5. ~~For the purposes of paragraph 4 of this condition, the Authority may direct that, in respect of the relevant year commencing 1 April 2010 and each subsequent relevant year, RB_t be calculated in accordance with the formula set out in paragraph 3 of this condition where the Authority is satisfied that the licensee has used reasonable endeavours to minimise the amount payable for those years in respect of non-domestic rates. Not used~~

Formula for the tower space rental revenue adjustment

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

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

where:

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

Formula for the Temporary Physical Disconnection Term

7. ~~For the relevant year t commencing 1 April 2012, TPD_t shall be an amount equal to the interruption payments made by the licensee in relation to interruption(s) in its transmission area within each respective relevant year t-1, and shall be adjusted by financing costs at the rate of 5.68 per cent per annum.~~

7. ~~For the purposes of paragraph 1, TPD_t , for the relevant year t commencing 1 April 2007, is an amount equal to the interruption payments made by the licensee in relation to interruption(s) in its transmission area in respect of the period commencing on 1 April 2004 and ending on 31 March 2007 where any payments made by the licensee prior to relevant year t commencing 1 April 2007 shall be adjusted for 'financing costs' and shall be derived from the following formula:~~

~~$$TPD_t = \sum_m TPD_m \times TPDMult_m \times PIT_t$$~~

~~where:~~

~~m~~ means the relevant year m such that the first relevant year shall be the year commencing on 1 April 2004 and the third relevant year shall be the year commencing 1 April 2006;

~~TPD_m~~ means the interruption payments in 2004/05 prices in the relevant year m;

~~PIT_t~~ shall, for the relevant year t, take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

~~TPDMult_m~~ is the adjustment factor for financing costs set out in the table below and which is calculated using the formula below:

$$\del TPDMult_m = 1.0625^{\overline{p}}$$

Where

~~p~~ is the number of years between the relevant year t and the relevant year m, and

~~TPDMult_m~~ shall take the number set out in the table below:

Relevant year m in which interruption occurs	2004/05	2005/06	2006/07
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<u>TPDMult_m</u>	<u>1.199463</u>	<u>1.128906</u>	<u>1.0625</u>
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Formula for the revenue associated with inter-TSO compensation scheme

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

$$\underline{ITC_t = (ITP_t - ITA_t)}$$

where:

ITP_t the direct costs arising from the participation by Great Britain in any European Union inter-TSO compensation scheme, where the Authority has approved the participation in that scheme;

ITA_t is inter-TSO compensation scheme allowance, and is derived from the following formula:

$$\underline{ITA_t = ITV_t \times RPIF_t}$$

where:

ITV_t is the inter-TSO compensation scheme allowance in 2009/10 prices, and shall take the value set out in the table below:

<u>Relevant year t commencing on 1 April</u>	<u>2012</u>
<u>RVITV_t</u>	<u>£8,000,000</u>

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

8. 8. For the relevant year t commencing 1 April 2008, and each subsequent relevant year t,

~~TPD_t shall be an amount equal to the interruption payments made by the licensee in relation to interruption(s) in its transmission area within each respective relevant year t-1, and shall be adjusted by financing costs at the rate of 6.25 per cent per annum.~~

Special Condition D5: Incentive Payments

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

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

where:

RI_t means the revenue adjustment term, whether of a positive (subject to paragraph 3 of this condition) or of a negative value, reflecting the licensee’s performance against a transmission network reliability incentive in the relevant incentive period relating to year t, and derived in accordance with Part 1 of this condition;

IFI_t means the revenue adjustment term in relevant year t in respect of expenditure pursuant to the Innovation Funding Incentive and shall be calculated in accordance with Part 2 of this condition;

SFI_t means the revenue adjustment factor in respect of rates of leakage of SF_6 and shall be calculated in accordance with Part 3 of this condition; and

~~RevApOx_t means the revenue adjustment term in respect of approved operating costs calculated in accordance with Part 4 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 take the value of PR_t calculated in accordance with the formula specified in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) in respect of the relevant year t-1; and

~~PR_{t-1} shall, in respect of the relevant year commencing on 1 April 2007, take the value £1,000,380,000. In the relevant year commencing 1 April 2008 and in each subsequent relevant year, PR_{t-1} shall take the value of PR_t calculated in accordance with the formula specified in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) in respect of the relevant year t-1; and~~

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

If $RIP_y < RILT_y$:

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

If $RIP_y > RIUT_y$:

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

Otherwise:

$$RAF_y = 0$$

where:

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

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

RIUT_y

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

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	
Incentive Period y	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012	
RIUT_y	274MWh	263MWh	263MWh	263MWh	263MWh	263MWh	
Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Incentive Period y	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013
RIUT_y	274MWh	263MWh	263MWh	263MWh	263MWh	263MWh	263MWh

RIUPA_y

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

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

RIUPA_y	1.0%	1.0%	1.0% (subject to paragraph 3)	1.0% (subject to paragraph 3)	1.0% (subject to paragraph 3)	1.0% (subject to paragraph 3)	
<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 April 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_y</u>	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</u> <u>(subject to paragraph 3)</u>	<u>1.0%</u> <u>(subject to paragraph 3)</u>	<u>1.0%</u> <u>(subject to paragraph 3)</u>	<u>1.0%</u> <u>(subject to paragraph 3)</u>	<u>1.0%</u> <u>(subject to paragraph 3)</u>

RIDPA_y 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>Incentive Period y</u>	<u>1 April 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>RIDPA_y</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</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>2013/14</u>
<u>Incentive Period y</u>	<u>1 April 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>RIDPA_y</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>

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

<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>Incentive Period y</u>	<u>1 April 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>RICOL_y</u>	<u>653MWh</u>	<u>619MWh</u>	<u>619MWh</u>	<u>619MWh</u>	<u>619MWh</u>	<u>619MWh</u>	<u>619MWh</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>2013/14</u>
<u>Incentive Period y</u>	<u>1 April 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>RICOL_y</u>	<u>653MWh</u>	<u>619MWh</u>	<u>619MWh</u>	<u>619MWh</u>	<u>619MWh</u>	<u>619MWh</u>	<u>619MWh</u>

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

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

3. For the purposes of calculating RAF_y , $RIUPA_y$ shall take the value specified in the relevant table in paragraph 2 above before 1 April 2009 or such later date as the Authority may direct. After 1 April 2009 or such later date as the Authority may direct, $RIUPA_y$ shall take the value specified in the relevant table in paragraph 2 above for relevant years during which the licensee implements an approved network output measures methodology in accordance with standard condition B17 (Network Output Measures), and shall take the value zero for relevant years during which the licensee fails to implement the methodology, unless otherwise directed by the Authority.
4. The licensee shall prepare and maintain a transmission reliability incentive methodology statement approved by the Authority, setting out the methodology by which the licensee will determine the volume of unsupplied energy in each incentivised loss of supply event.
5. The licensee shall use reasonable endeavours to apply the methodology set out in the statement in calculating the volume of unsupplied energy in relation to any incentivised loss of supply event.
6. Before revising the methodology referred to in paragraph 4, the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
7. Unless the Authority otherwise directs within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 6, the licensee shall use reasonable endeavours to apply the methodology revised in accordance with such proposed revisions.

8. For the purposes of this special condition “incentivised loss of supply event” shall mean any event on the licensee’s transmission system that causes electricity not to be supplied to a customer subject to the following exclusions:
 - (a) any such event that causes electricity to not be supplied to 3 or less directly connected parties;
 - (b) any unsupplied energy resulting from a shortage of available generation;
 - (c) any unsupplied energy resulting from a de-energisation or disconnection of a user’s equipment under an event of default as defined in the CUSC;
 - (d) any unsupplied energy resulting from a user’s request for disconnection in accordance with the Grid Code;
 - (e) any unsupplied energy resulting from a planned outage as defined in the Grid Code;
 - (f) any unsupplied energy resulting from emergency de-energisation by a user as defined in the CUSC; and
 - (g) any unsupplied energy resulting from an emergency de-energisation or disconnection of a user’s equipment necessary to ensure compliance with the Electricity Safety, Quality and Continuity Regulations 2002, as amended from time to time, or to otherwise ensure public safety.
9. For the purpose of paragraph 8, a “directly connected party” is any party with a direct connection to the licensee’s transmission system with the exception of any connection to a distribution system.
10. Where:
 - (a) the licensee considers that any event on the licensee’s transmission system that causes electricity not to be supplied to a customer has been wholly or partially caused by an exceptional event;
 - (b) the licensee has notified the Authority of such event within 14 days of its occurrence;
 - (c) the licensee has provided details of the volume of unsupplied energy that the licensee considers resulted from the exceptional event and such further information, if any, as the Authority may require in relation to such an exceptional event; and

- (d) the Authority is satisfied that the event notified to it under sub-paragraph (b) is an exceptional event

the Authority may, by notice to the licensee, direct that, for the purpose of calculating the volume of unsupplied energy for the relevant incentivised loss of supply event the constituent data relevant to that event shall be adjusted as specified in that direction.

11. For the purpose of paragraph 10, the adjustment directed by the Authority shall be based on the extent to which the Authority is satisfied that the licensee had taken reasonable steps to prevent the event having the effect of interrupting supply and to mitigate its effect (both in anticipation and subsequently).
12. A direction under paragraph 10 shall not have effect unless, before it is made, the Authority has given notice to the licensee:
 - (a) setting out the terms of the proposed direction;
 - (b) stating the reasons why it proposes to issue the direction; and
 - (c) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections

and the Authority has considered such representations or objections and given reasons for its decision.

13. For the purpose of paragraph 10, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes electricity not to be supplied to a customer and includes (without limitation) an act of the public enemy, war declared or undeclared, threat of war, terrorist act, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire (not related to weather), any severe weather event resulting in more than 50 faults being recorded by the licensee on the licensee’s transmission system in any 24 hour period, governmental restraint, Act of Parliament, other legislation, bye law or directive (not being any order, regulation or direction under section 32, 33, 34 and 35 of the Act) or decision of a Court of competent authority or the European Commission or any other body having jurisdiction over the activities of the licensee provided that lack of funds shall not be interpreted as a cause beyond the reasonable control of the licensee.

Part 2 – Calculation of charge restriction adjustments arising from the innovation funding incentive scheme

14. The purpose of this part of this condition is to provide for adjustments to maximum revenue to reflect performance of the licensee in relation to its investment in innovation under the Innovation Funding Incentive (IFI) scheme.

15. For the purposes of paragraph 1, IFI_t , is derived for the relevant year t from the formula:

$$IFI_t = ptr_t \times (\min(IFIE_t, (\max(\pounds 500,000 + KIFI_t, ((0.005 \times PR_t) + KIFI_t))))))$$

where:

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

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

ptr_t is the pass-through factor applicable for the relevant year t and shall in the relevant year commencing 1 April 2007 and each subsequent relevant year take the value 0.8; and

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

if $IFIE_{t-1} \leq 0.5 \times \max(\pounds 500,000, (0.005 \times PR_{t-1}))$:

$$KIFI_t = 0.5 \times (\max(\pounds 500,000, (0.005 \times PR_{t-1})))$$

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

and $IFIE_{t-1} \leq \max(\pounds 500,000, (0.005 \times PR_{t-1}))$:

$$KIFI_t = \max(\pounds 500,000, (0.005 \times PR_{t-1})) - IFIE_{t-1}$$

if $IFIE_{t-1} > \max(\pounds 500,000, (0.005 \times PR_{t-1}))$:

$$KIFI_t = 0$$

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

16. For the purposes of this condition:

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

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

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

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

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

17. The purpose of this condition is to provide for adjustments to allowed revenue to reflect performance of the licensee in relation to its Sulphur Hexafluoride (SF₆) incentive scheme.

18. For the purposes of paragraph 1, SFI_t , shall where $ALK_t < TLK_t$ be calculated in accordance with the following formula:

$$SFI_t = 0.002 \times PR_t$$

otherwise: SFI_t shall take the value zero.

where:

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

ALK_t means the actual leakage rate of SF₆ gas in relevant year t as a percentage of inventory of SF₆ gas as reported by the licensee

pursuant to the revenue reporting regulatory instructions and guidance issued in accordance with standard condition B16 (Price Control Revenue Reporting and Associated Information); and

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

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12	<u>2012/13</u>
TLK _t	3.00%	2.75%	2.50%	2.25%	2.00%	<u>1.75%</u>

19. The licensee shall on or before 1 April 2007 or such later date as the Authority may direct, submit to the Authority a leakage rate of SF₆ methodology statement consistent with best industry practice, setting out the methodology by which the licensee will determine the leakage rate of SF₆ gas, required for the calculation of the actual leakage rate of SF₆ gas, ALK_t, and the target leakage rate of SF₆ gas, TLK_t.
20. Unless the Authority directs otherwise within 2 months of the date on which the licensee submits the statement to the Authority in accordance with paragraph 19, the licensee shall use reasonable endeavours to apply the methodology set out in that statement.
21. Before revising the methodology referred to in paragraph 19 the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
22. Unless the Authority otherwise directs within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 21, the licensee shall use reasonable endeavours to apply the methodology revised in accordance with such proposed revisions.
23. Where:
 - (a) the licensee considers that any event on the licensee's transmission system that causes leakage of SF₆ gas has been wholly or partially caused by an exceptional event;
 - (b) the licensee has notified the Authority of such event within 14 days of its occurrence;
 - (c) the licensee has provided details of the exceptional event and such further information, if any, as the Authority may require in relation to such an exceptional event; and

- (d) the Authority is satisfied that the event notified to it under sub-paragraph (b) is an exceptional event

the Authority may, by notice to the licensee, direct that the actual leakage of SF₆ gas and the value of ALK_t in relevant year t shall be adjusted as specified in that direction. In directing the value of any adjustment to ALK_t in relevant year t pursuant to this paragraph, the Authority shall reserve the right to modify the value of any proposed adjustment notified by the licensee that may be made to ALK_t in relevant year t.

- 24. For the purpose of paragraph 23, any adjustment directed by the Authority shall take account of the extent to which the Authority is satisfied that the licensee had used reasonable endeavours to prevent the event from resulting in the leakage of SF₆ and to mitigate its effect (both in anticipation and subsequently).
- 25. A direction under paragraph 23 shall not have effect unless, before it is made, the Authority has given notice to the licensee:
 - (a) setting out the terms of the proposed direction;
 - (b) stating the reasons why it proposes to issue the direction; and
 - (c) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections

and the Authority has considered such representations or objections and given reasons for its decision.

- 26. For the purpose of paragraph 23, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in, causes or prohibits the timely prevention of the leakage of SF₆ gas and includes (without limitation) an act of the public enemy, war declared or undeclared, threat of war, terrorist act, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire (not related to weather), governmental restraint, Act of Parliament, any other legislation, bye law or directive (not being any order, regulation or direction under section 32, 33, 34 and 35 of the Act) or decision of a Court of competent authority or the European Commission or any other body having jurisdiction over the activities of the licensee provided that lack of funds shall not be interpreted as a cause beyond the reasonable control of the licensee.

27. Without prejudice to paragraph 26, an “exceptional event” may include circumstances where a significant danger to the public gives rise to the licensee prioritising health and safety over the reduction of leakage of SF₆ gas at a particular site.

Part 4 – Adjustment to restriction of transmission charges due to approved operating expenditure

~~28. The purpose of this part of this condition is to provide for an adjustment to the maximum revenue to reflect approved operating expenditure.~~

~~29. For the purpose of paragraph 1, $RevApOx_t$ shall be calculated in accordance with the following formula:~~

$$~~RevApOx_t = ApPreCon_t~~$$

~~Where;~~

~~$ApPreCon_t$ means the pre construction transmission reinforcement expenditure for relevant year t as described in paragraph 30.~~

~~30. For the purpose of paragraph 29, $ApPreCon_t$ shall have the value of £10,000,000 for relevant year t commencing on 1 April 2009 and shall have the value of zero in each subsequent relevant year unless directed otherwise by the Authority in writing. The pre construction transmission reinforcement expenditure shall comprise the required network analyses, technical design studies, site selection and preliminary environmental assessments necessary for the reinforcement works on the licensee’s transmission system identified in the following table:~~

Identifier	Reinforcement description	Approved expenditure
1	Develop transmission capacity between Scotland and England by means of reconductoring existing circuits and the addition of reactive compensation	£2,000,000
2	Develop transmission capacity between Scotland and England by means of a new western HVDC transmission link.	£2,900,000
3	Develop transmission capacity between Scotland and England by means of a new Eastern HVDC transmission link.	£200,000

4	Develop transmission capacity between Anglesey, North Wales and England by means of new circuits and substation extensions.	£950,000
5	Develop transmission capacity and additional generation/offshore network connection opportunities between Humber and Walpole.	£900,000
6	Develop transmission capacity and additional generation/offshore network connection opportunities between Walpole, Norwich and Bramford.	£1,000,000
7	Develop transmission capacity for power exports from the South West of England by means of new circuits.	£700,000
8	Develop transmission capacity into east of London by increasing circuit operating voltages.	£700,000
9	Develop transmission capacity to central Wales by means of new circuits.	£650,000

~~31. The licensee shall provide the Authority with a report describing the progress achieved by the licensee on each of the pre-construction reinforcement work areas identified in the table above not later than 3 months after the end of the relevant year t commencing 1 April 2009.~~

Special Condition D9: Capital Expenditure Incentive and Safety Net

1. The purpose of this condition is to set out how the Capital Expenditure Incentive and Safety Net, as described in the Transmission Price Control Review Final Proposals document of December 2006 (Reference number: 206/06), and the TPCR4 Rollover Final proposals document of November 2011 (Reference Number: 162/11) will operate.

Part 1: Capital Expenditure Incentive Revenue Adjustment

2. For the purposes of paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) the capital expenditure incentive revenue adjustment $CxIncRA_t$ shall in each relevant year t take the value of zero, except for the relevant years commencing defined in the table below in which $CxIncRA_t$ shall be calculated in accordance with the following formula:

<u>Year commencing</u>	<u>Value</u>
1 April 2012	£42.3m (in 2009/10 prices) * $RPIF_t$
1 April 2013	£169.4m (in 2009/10 prices) * $RPIF_t$ – This reflects the remainder of the TPCR4 capex incentive provisional adjustment should it have occurred in 2012/13 and will be allowed on an NPV neutral basis in RIIO-T1
1 April 2014	= $ROAdj$

Where:

$RPIF_t$ shall have the same meaning as in special condition D2 (Restriction on Transmission Network Revenue).

$ROAdj$ is the Revenue adjustment to be made on 1 April 2014. This revenue adjustment serves two functions:

- i) Makes a revenue adjustment equal to the difference between the term $CXInc_{TP4}$ for the 5 years from 2007 to 2012 and £211.7m (in 2009/10 prices), and;

- ii) Makes a revenue adjustment in line with the capex incentive for the year 2012/13, defined the term as $CxInc_{RO}$

and is calculated in accordance with the following formula:

$$ROAdj = ((CxInc_{TP4} - (£211.7m * RPIF_t)) * 1.0568 * RIIOret) + CXInc_{RO} - Dup$$

Where:

$CxInc_{TP4}$	means the capex incentive calculation for period defined under the TPCR4 price control as defined in paragraph 4 of this condition
$RPIF_t$	shall have the same meaning as in special condition D2 (Restriction on Transmission Network Revenue).
$RIIOret$	Means the pre-tax allowed return granted for the year 2013/14 as part of the RIIO price control
$CXInc_{RO}$	means the revenue adjustment made to reflect the capex incentive for the rollover year, calculated as defined in paragraph 3 of this condition
Dup	is a term to be directed by the authority where any revenue driver adjustment, calculated through the term LVn , duplicated allowances that have been awarded through another funding mechanism or were not required as a result of connect and manage.

3. **Rollover Capex incentive adjustment**

$$CXInc_{RO} = (RETA_{adj} + SFA_{adj}) \times RIIOret \times RPIF_t$$

Where:

$RETA_{adj}$	Is the revenue adjustment to clawback / grant additional return and depreciation for the rollover year where actual capex incurred does not match the capex allowance which was used for the purpose of determining allowed revenue and is defined as follows:
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$$RET_{Adj} = [(0.0280) \times 1.0568 \times ((ACX_{2012} \div RPIF_t) - BCX_{2012} - ALP_{2012} + NTP_{2012})]$$

Where:

ALP₂₀₁₂ means the provisional allowance granted for projects that if they complete in the rollover year will result in an increase in the term LVN. This is equal to £219.1m in 2009/10 prices

ACX₂₀₁₂ Is defined as per the definition in paragraph 4 of this condition

BCX₂₀₁₂ Is defined as per the definition in paragraph 4 of this condition

NTP₂₀₁₂ Is defined as per the definition in paragraph 4 of this condition

And where:

SFAdj Is the total revenue adjustment to realise the 25% sharing factor within the rollover year and is calculated as follows:

$$SFAdj = (0.25 \times 1.0568 \times ((BCX_{2012} + LVNN_{2012}) - (ACX_{2012})))$$

where

LVNN₂₀₁₂ Is the adjustment to the capital expenditure allowance for the rollover year net of expenditure that was allowed in TPCR4 as Work in Progress, and is defined as follows:

$$LVNN_{2012} = LV_{2012} - \sum_i (complete \times totalvalue)$$

Where:

i means each relevant power station i which as at 1 April 2012 is contracted to have access charges levied on or after 1 April 2012

LV₂₀₁₂ means the adjustment to the capital expenditure allowance for the rollover year as described in paragraph 4 of this condition

totalvalue_i means the total expenditure associated with each relevant power station i, expressed in 2009/10 prices, defined as follows:

$$\text{totalvalue} = \frac{\left(\sum_{2007}^{2011} LVWIP_i \times \text{contracted}_i \right)}{\left(\text{contracted}_i - GN_{i,n-1} \right)}$$

Where:

LVWIP_i means the adjustment in the capital expenditure allowance, expressed in 2009/10 prices, calculated as per paragraph 8 of this condition for each power station i

Contracted_i means the total relevant generation entry capacity for an individual power station i as at 31 March 2012 that is contracted to have access charges levied on or after 1 April 2012

GN_{i,n} means individual relevant generation entry capacity in the relevant year n for an individual power station i for which access charges were levied in the relevant year n. The relevant generation entry capacity for an individual power station shall be the largest holding or (if greater than the holding) use of entry capacity rights (through any combination of firm access products) held or used by an individual power station for a total period not less than 5 days during the relevant year n.

Complete_i Is the fraction of additional generation entry capacity for an individual power station i delivered in 2012/13 that triggers an adjustment in the capital expenditure allowance through LVGC_n, LVZS_n, LVZD_n or LVST_n defined in paragraph 8, and is defined as follows:

$$\text{complete} = \text{Max} \left(\frac{GN_{i,n} - GN_{i,n-1}}{\text{contracted}_i}, 0 \right)$$

Where:

GN_{i,n} Is defined above

Contracted_i Is defined above

4. TPCR4 Capex incentive adjustment

$$CxInc_{TP4} = \left(\sum_n [CIR_n \times PVF_n \times (LV_n + NTP_n)] \times RPIF_t \right) + \left(\sum_n [(CIR_n - 0.25) \times PVF_n \times (IncDif_n - LV_n)] \times RPIF_t \right)$$

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_n means the capital expenditure incentive sharing factor, representing the proportion of the licensee's exposure to under or overspend against the capital expenditure allowance for the relevant year n that would be borne by the licensee during the revenue restriction period if no adjustment were to be made to the licensee's revenue in accordance with this condition and shall take the value set out in the table below:

<u>Relevant year commencing 1 April:</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>CIR_n</u>	<u>0.3981</u>	<u>0.3184</u>	<u>0.2312</u>	<u>0.1357</u>	<u>0.0313</u>

PVF_n means the present value adjustment factor in respect of the relevant year n and shall take the value set out in the table below:

<u>Relevant year commencing 1 April:</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>PVE_n</u>	<u>1.35408</u>	<u>1.27443</u>	<u>1.19946</u>	<u>1.12891</u>	<u>1.06250</u>

IncDif_n represents the difference, expressed in 2009/10 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:

$$IncDif_n = \left(\frac{ACx_n}{RPIF_n} \right) - BCx_n$$

where:

ACx_n is the adjusted efficient capital expenditure incurred by the licensee in respect of the relevant year n and shall be calculated in accordance with paragraph 5 of this condition;

RPIF_n shall take the value of RPIF_t for relevant year t=n, where RPIF_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

BCx_n means, subject to Part 2 (Capital Expenditure Safety Net) of this condition, the base capital expenditure allowance, expressed in 2009/10 prices, in respect of the relevant year n and shall take the value set out in the table below:

<u>Relevant year commencing 1 April:</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>BCx_n</u>	<u>£621,971,064</u>	<u>£597,865,509</u>	<u>£650,849,997</u>	<u>£732,236,080</u>	<u>£759,683,000</u>	<u>£576,600,000</u>

LV_n means, in respect of the relevant year n, the adjustment to the capital expenditure allowance, in 2009/10 prices, arising from:

- (a) the volume of zonal additional generation entry capacity;
- (b) the volume of zonal surplus (or deficit); or
- (c) the amount of transfer capacity between Scotland and England.

differing from the deemed baseline or base scenario values used for the purposes of deriving the term BCx_n set out in this paragraph and shall be calculated in accordance with paragraph 8 of this condition;

NTP_n means the capital shortfall in relation to capital expenditure efficiently incurred in respect of the relevant year n, in 2009/10 prices, for the purpose of facilitating the connection and/or access rights of users where the users terminate relevant bilateral agreements prior to commencing use of the national electricity transmission system, which shall be calculated in accordance with the following:

$$NTP_n = \frac{(TP_n - TPR_n)}{RPIF_n}$$

where:

TP_n means the capital expenditure efficiently incurred by the licensee in respect of the relevant year n for the purpose of facilitating the connection and/or access rights of users where the users terminate relevant bilateral agreements prior to commencing use of the national electricity transmission system and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

TPR_n means an amount equal to the termination receipts received, in the form of revenues or capital contributions, in respect of TP_n in the relevant year n;

RPIF_n shall take the value of RPIF_t for relevant year t=n, where RPIF_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue); and

RPIF_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue).

5. For the purposes of paragraph 4, ACx_n shall be calculated in accordance with the following formula:

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

where:

Cx_n 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 capital expenditure shall not include capital expenditure incurred by the licensee in the relevant year n in respect of the transmission investment projects identified in Annex A of special condition D3 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation);

$ESCx_n$ means that amount of load related capital expenditure incurred by the licensee in the provision of excluded services as set out in special condition D10 (Excluded Services) in the relevant year n in its transmission area 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);

LCx_n means that amount of capital expenditure incurred by the licensee in respect of the relevant year n that falls to be treated as logged up capital expenditure as specified in paragraph 11 to this condition and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

TP_n shall take the same meaning as given in paragraph 4 of this condition; and

DCx_n 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.

6. For the purposes of paragraph 5, before issuing a direction that certain capital expenditure is deemed inefficient the Authority shall issue a notice to the licensee specifying:

- (a) the capital expenditure that the Authority proposes to deem inefficient;
- (b) the reasons why the Authority considers that the capital expenditure referred to in sub-paragraph (a) is inefficient; and
- (c) the date, being of no 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.

7. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 6 before making any direction in respect of paragraph 5.

8. For the purposes of paragraphs 3 and 4, LV_n shall be calculated in accordance with the following formula:

$$\underline{LV_n = LVGC_n + LVZS_n + LVZD_n + LVST_n + LVWIP_n}$$

where:

$LVGC_n$ means the adjustment in the capital expenditure allowance in respect of the relevant year n relative to the base capital expenditure allowance (BCx_n) to reflect requirements for local reinforcement works associated with the connection of additional generation entry capacity, and shall be calculated in accordance with paragraph 9 of this condition;

$LVZS_n$ means the adjustment in the capital expenditure allowance in respect of the relevant year n relative to the base capital expenditure allowance (BCx_n) to reflect the need to accommodate zonal surpluses of generation capacity, and shall be calculated in accordance with paragraph 10 of this condition;

LVZD_n means the adjustment in the capital expenditure allowance in respect of the relevant year n relative to the base capital expenditure allowance (BC_{x_n}) to reflect the need to accommodate zonal deficits of generation capacity, and shall be calculated in accordance with paragraph 11 of this condition;

LVST_n means the adjustment in the capital expenditure allowance in respect of the relevant year n relative to the base capital expenditure allowance (BC_{x_n}) to reflect the need to accommodate additional transfers from Scotland to England, and shall be calculated in accordance with paragraph 12 of this condition; and

LVWIP_n means the adjustment in the capital expenditure allowance in relevant year n relative to the base capital expenditure allowance (BC_{x_n}) in respect of works carried out by the licensee which would otherwise be included within LVGC_n, LVZS_n, LVZD_n, and LVST_n had the relevant change in volume been provided (“work in progress”) and shall take the value zero unless the Authority directs that this adjustment shall have a positive value to reflect such work in progress.

9. For the purposes of paragraph 8, LVGC_n shall be calculated in accordance with the following formula:

$$LVGC_n = \sum_{all\ j} [UCAGC_j \times (AVGC_{j,n} - AVGC_{j,n-1})]$$

where:

UCAGC_j means the unit cost allowance in respect of local reinforcement works associated with the connection of additional generation capacity in zone j and shall take the values specified in Table 5 of Annex B to this condition;

j means the revenue driver zones identified in Annex A to this condition;

AVGC_{j,n} means the generation entry capacity adjustment volume for zone j in the relevant year n and shall be calculated using the following formula:

$$\underline{AVGC_{j,n} = GC_{j,n} - BGC_{j,n}}$$

where:

GC_{j,n} means the sum for zone j of all increments to individual relevant generation entry capacities (in MW) and shall be calculated using the following formula:

$$\underline{GC_{j,n} = \sum_{\text{all } k} [Max((GN_{k,n} - BGN_k), 0)]}$$

where:

GN_{k,n} means maximum of the individual relevant generation entry capacities in any relevant year from the relevant year commencing 1 April 2007 up to and including relevant year n for an individual power station k in zone j for which access charges were levied in any relevant year from the relevant year commencing 1 April 2007 up to and including relevant year n. The relevant generation entry capacity for an individual power station shall be the largest holding or (if greater than the holding) use of entry capacity rights (through any combination of firm access products) held or used by an individual power station for a total period not less than 5 days during the relevant year n;

BGN_k means the individual relevant generation entry capacities which were delivered and subject to access charges at any point in the relevant year commencing 1 April 2006;

k means each individual power station in zone j;

BGC_{j,n} means the baseline generation entry capacity for zone j in the relevant year n and shall take the values in Table 1 of Annex B to this condition; and

AVGC_{j,n-1} means the generation entry capacity adjustment volume for zone j in the relevant year n-1 and shall be derived as follows:

(a) in the relevant year commencing 1 April 2007, shall have the value zero; and

(b) in each subsequent relevant year AVGC_{j,n-1} shall be calculated in the same manner as AVGC_{j,n} save that references to the relevant year n shall be replaced by references to the relevant year n-1.

10. For the purposes of paragraph 8, LVZS_n shall be calculated in accordance with the following formula:

$$\underline{LVZS_n = \sum_{\text{all } j} [(UCAZS_j) \times (AVZS_{j,n} - AVZS_{j,n-1})]}$$

where:

UCAZS_j means the unit cost allowance reflecting the need to accommodate zonal surpluses of generation capacity and shall take the values specified in Table 5 of Annex B to this condition;

j means the revenue driver zones identified in Annex A to this condition;

AVZS_{j,n} means the zonal surplus adjustment volume for zone j in the relevant year n and shall be calculated using the following formula:

$$\underline{AVZS_{j,n} = [\max(ZS_{j,n}, LZS_j) - \max(BZS_{j,n}, LZS_j)]}$$

where

LZS_j means the baseline zonal surplus for zone j and shall take the values in Table 2 of Annex B to this condition for all relevant years n;

BZS_{j,n} means the base scenario zonal surplus output in MW for zone j in the relevant year n and shall take the values specified in Table 2 of Annex B to this condition; and

ZS_{j,n} means the zonal surplus in MW for zone j in the relevant year n and shall be calculated in accordance with the following formula:

$$\underline{ZS_{j,n} = ZGen_{j,n} + ZClos_{j,n} - ZDem_j}$$

where:

ZGen_{j,n} means the sum across all users connected in zone j of all long-term generation entry capacity products in MW for which charges were levied in the relevant year n including TEC and such other products that imply a user commitment of not less than one year;

ZClos_{j,n} means the sum across all users connected in zone j of all individual reductions in generation entry capacities in MW for which access charges were paid in the relevant year n-1 but not in the relevant year n (for the avoidance of doubt this number can take a zero or positive value); and

ZDem_{j,n} means the user demand at national peak in zone j in the relevant year n, which is calculated using the following formula:

$$\underline{ZDem_{j,n} = FDem_{j,n} \times \left(\frac{ODem_{j,n-1}}{FDem_{j,n-1}} \right)}$$

where:

FDem_{j,n} means the sum for zone j of all Grid Supply Point demand nominations in MW for time of national peak demand made in relevant year n-1 for relevant year n;

FDem_{j,n-1} means the sum for zone j of all Grid Supply Point demand nominations in MW for time of national peak demand made in relevant year n-1 for relevant year n-1; and

ODem_{j,n-1} means the sum for zone j of all Grid Supply Point demands in MW at time of national peak demand in relevant year n-1; and

AVZS_{j,n-1} means the zonal surplus adjustment volume for zone j in the relevant year n-1 and shall be derived as follows:

(a) in the relevant year commencing 1 April 2007, shall have a value equal to zero; and

(b) in each subsequent year, AVZS_{j,n-1} shall be calculated in the same manner as AVZS_{j,n} save that references to the relevant year n shall be replaced by references to the relevant year n-1 and references to the year n-1 shall be replaced by references to the relevant year n-2.

11. For the purposes of paragraph 8, LVZD_n shall be calculated in accordance with the following formula:

$$LVZD_n = \sum_{\text{all } j} [(UCAZD_j) \times (AVZD_{j,n} - AVZD_{j,n-1})]$$

where:

UCAZD_j means the unit capital expenditure cost allowance in 2004/05 prices for the infrastructure required to accommodate the zonal deficit for zone j, and shall take the values specified in Table 5 of Annex B of this condition;

j means the revenue driver zones identified in Annex A to this condition;

AVZD_{j,n} means the zonal deficit adjustment volume for zone j in the relevant year n and shall be calculated as follows:

$$AVZD_{j,n} = [\max(ZD_{j,n}, LZD_j) - \max(BZD_{j,n}, LZD_j)]$$

where:

LZD_j means the baseline zonal deficit in MW for zone j, as specified in Table 3 of Annex B to this condition;

BZD_{j,n} means the base scenario zonal deficit output in MW to be accommodated in zone j in the relevant year n, and shall take the values specified in Table 3 of Annex B to this condition;

ZD_{j,n} means the zonal deficit in MW for zone j which is specified using the following formula:

$$\underline{ZD_{j,n} = ZDem_{j,n} - ZGen_{j,n}}$$

where:

ZDem_{j,n} shall have the same meaning as given in paragraph 8 of this condition;

ZGen_{j,n} shall have the same meaning as given in paragraph 8 of this condition; and

AVZD_{j,n-1} means the zonal deficit adjustment volume for zone j in the relevant year n-1 and shall be derived as follows:

(a) in the relevant year commencing on 1 April 2007, shall have a value equal to zero; and

(b) in each subsequent year, AVZD_{j,n-1} shall be calculated in the same manner as AVZD_{j,n} save that references to the relevant year n shall be replaced by references to the relevant year n-1 and references to the relevant year n-1 shall be replaced by references to the relevant year n-2.

12. For the purposes of paragraph 8, LVST_n, shall be calculated in accordance with the following formula:

$$\underline{LVST_n = [(UCAST) \times (AVST_n - AVST_{n-1})]}$$

where:

UCAST means the unit capital expenditure cost allowance in 2009/10 values for reinforcements associated with accommodating higher

transfers from Scotland to England, and shall take the value £364,413 per MW;

AVST_n means the adjustment volume of delivered long-term output capacity in MW of the network between Scotland and England in the relevant year n and shall be calculated in accordance with the following formula:

$$\underline{AVST_n = ST_n - BST_n}$$

where:

ST_n means the delivered long-term output capacity in MW of the network between Scotland and England in relevant year n. Delivery of long-term capacity across this portion of the network shall be assessed on the basis of the availability of secure capacity on the circuits that cross the England – Scotland border and the network upstream and downstream of the border such that power transfers can be sustained for a variety of generation patterns in Scotland and England;

BST_n means the base scenario output capacity in MW of the network between Scotland and England in the relevant year n, and shall take the values specified in Table 4 of Annex B to this condition; and

AVST_{n-1} means the adjustment volume of delivered long-term output capacity in MW of the network between Scotland and England in the relevant year n-1 and shall be derived as follows:

- (a) in the relevant year commencing 1 April 2007, shall have a value equal to zero; and
- (b) in each subsequent year, AVST_{n-1} shall be calculated in the same manner as AVST_n save that references to the relevant year n shall be replaced by references to the relevant year n-1.

13. For the purposes of paragraph 5, 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) underground cable tunnels up to a cap of £60,000,000 (in 2004/05 values) in the years commencing 1 April 2007 to 1 April 2011;

(b) upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme in the years commencing 1 April 2007 to 1 April 2011;

(c) economic costs incurred by the licensee for the purpose of implementing any recommendation or requirement of the CPNI to enhance the physical security of any of the site within the licensee's Transmission Network;

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

14. 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 n, 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 n-1 in accordance with standard condition B15 (Price Control Review Information).

Part 2: Capital Expenditure Safety Net

15. For the purposes of this condition, relevant capital expenditure (RelCx_t) in respect of the relevant year t shall be calculated as follows:

$$RelCx_t = \frac{Cx_t - LCx_t - ESCx_t - LV_t}{RPIF_t}$$

where:

Cx_t shall take the value of Cx_n for relevant year n=t, where Cx_n shall take the same meaning as given in paragraph 5 of this condition;

LCx_t shall take the value of LCx_n for relevant year n=t, where LCx_n shall take the same meaning as given in paragraph 5 of this condition; and

ESCx_t shall take the value of ESCx_n for relevant year n=t, where ESCx_n shall take the same meaning as given in paragraph 5 of this condition;

RPIF_t shall have the same meaning as in special condition D2 (Restriction on Transmission Network Revenue); and

LV_t shall take the value of LV_n for relevant year n=t, where LV_n shall take the same meaning as given in paragraph 4 of this condition.

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

17. For the purposes of paragraph 18, the relevant capital expenditure allowance (RelACx_t) in the relevant year t shall be calculated in accordance with the following formula:

$$\underline{RelAC_t = BCx_t}$$

where

BCx_t shall take the value of BCx_n for relevant year n=t, where BCx_n shall take the same meaning as given in paragraph 4 of this condition.

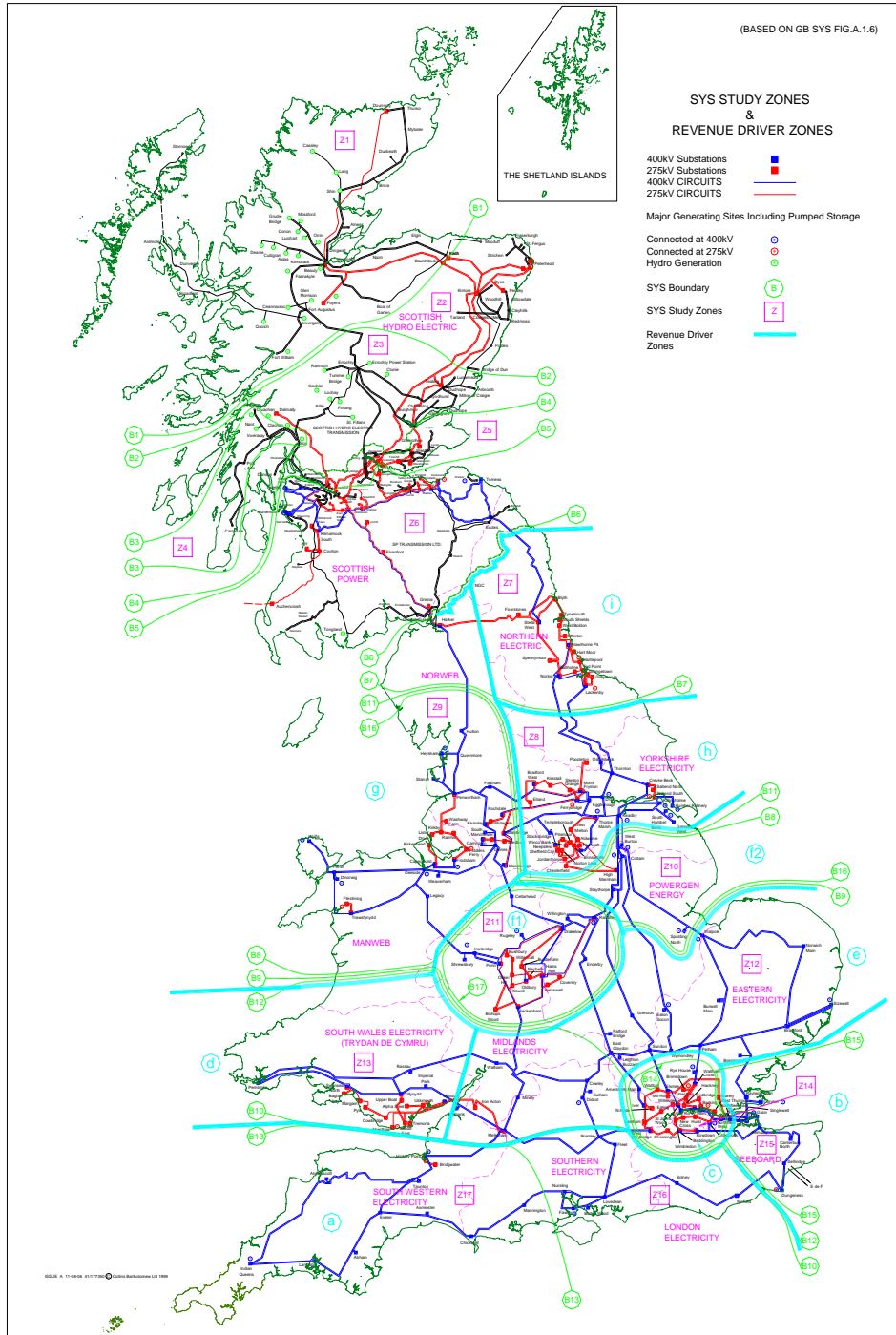
18. If, in respect of the relevant year t or any subsequent relevant year up to and including the relevant year commencing on 1 April 2012, the licensee reasonably expects that relevant capital expenditure RelCx_t will be less than $0.8 \times (RelACx_t)$ then the licensee shall furnish to the Authority a statement setting out:

(a) the amount by which the licensee expects relevant capital expenditure to fall below RelACx_t in respect of that same relevant year;

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

19. The Authority may request any additional information in relation to paragraphs 15 to 18 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.
20. Where the Authority issues a request pursuant to paragraph 19, 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.
21. The Authority may, having considered the information provided by the licensee pursuant to this condition, by notice to the licensee set out that it proposes to reduce the value of the base transmission revenue set out in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue). Such notice shall specify:
- (a) the amount by which the Authority proposes to reduce base transmission revenue as a result of relevant capital expenditure RelCxt being less than $0.8 \times (RdACx_t)$;
 - (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.
22. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 21 before formally proposing the modification to the value of the base transmission revenue in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) referred to in the notice pursuant to section 11A (of the Act).
23. The proposals provided to the licensee pursuant to paragraph 21 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.

**Annex A to Special condition D9 (Capital Expenditure Incentive and Safety Net):
Definition of zones**



Zone Legend

<u>Zone</u>	<u>Description</u>
<u>a</u>	<u>South and South West</u>
<u>b</u>	<u>Thames Estuary</u>
<u>c</u>	<u>London</u>
<u>d</u>	<u>South Wales</u>
<u>e</u>	<u>East and Home Counties</u>
<u>f1</u>	<u>West Midlands</u>
<u>f2</u>	<u>East Midlands</u>
<u>g</u>	<u>North West and North Wales</u>
<u>h</u>	<u>Yorkshire and Lincolnshire</u>
<u>i</u>	<u>North East</u>

Table 2: Values for LZS_j and BZS_{j,n} (in MW)

			<u>BZS_{j,n} in relevant year commencing 1 April:</u>					
<u>Zone</u>	<u>Description</u>	<u>LZS_j</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
a	<u>South and South West</u>	<u>-4,654</u>	<u>-4,735</u>	<u>-3,129</u>	<u>-3,195</u>	<u>-2,837</u>	<u>-2,880</u>	<u>-2,939</u>
b	<u>Thames Estuary</u>	<u>6,938</u>	<u>6,878</u>	<u>6,165</u>	<u>6,284</u>	<u>7,682</u>	<u>7,838</u>	<u>6,713</u>
c	<u>London</u>	<u>-6,808</u>	<u>-6,950</u>	<u>-7,109</u>	<u>-7,230</u>	<u>-7,314</u>	<u>-7,412</u>	<u>-7,527</u>
d	<u>South Wales</u>	<u>5,241</u>	<u>2,096</u>	<u>2,112</u>	<u>1,628</u>	<u>1,622</u>	<u>1,614</u>	<u>1,604</u>
e	<u>East and Home Counties</u>	<u>301</u>	<u>-709</u>	<u>-818</u>	<u>-1,389</u>	<u>-1,408</u>	<u>-1,462</u>	<u>-1,530</u>
f1	<u>West Midlands</u>	<u>-3,408</u>	<u>-3,466</u>	<u>-3,536</u>	<u>-3,580</u>	<u>-3,596</u>	<u>-3,624</u>	<u>-3,416</u>
f2	<u>East Midlands</u>	<u>6,431</u>	<u>4,725</u>	<u>4,714</u>	<u>4,708</u>	<u>4,703</u>	<u>4,703</u>	<u>4,699</u>
g	<u>North West and North Wales</u>	<u>2,366</u>	<u>2,373</u>	<u>2,385</u>	<u>2,427</u>	<u>2,455</u>	<u>1,715</u>	<u>2,193</u>
h	<u>Yorkshire and Lincolnshire</u>	<u>7,679</u>	<u>7,672</u>	<u>7,655</u>	<u>7,658</u>	<u>7,980</u>	<u>8,236</u>	<u>8,244</u>
i	<u>North East</u>	<u>482</u>	<u>479</u>	<u>505</u>	<u>505</u>	<u>515</u>	<u>525</u>	<u>531</u>

Table 3: Values for LZD_i and $BZD_{i,n}$ (in MW)

			<u>BZD_{i,n} in relevant year commencing 1 April:</u>					
<u>Zone</u>	<u>Description</u>	<u>LZD_i</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
a	<u>South and South West</u>	<u>4,654</u>	<u>4,735</u>	<u>3,129</u>	<u>3,195</u>	<u>2,837</u>	<u>2,880</u>	<u>2,939</u>
b	<u>Thames Estuary</u>	<u>-6,938</u>	<u>-6,228</u>	<u>-6,138</u>	<u>-6,284</u>	<u>-7,682</u>	<u>-6,762</u>	<u>-6,713</u>
c	<u>London</u>	<u>6,808</u>	<u>6,950</u>	<u>7,109</u>	<u>7,230</u>	<u>7,314</u>	<u>7,412</u>	<u>7,527</u>
d	<u>South Wales</u>	<u>-3,641</u>	<u>-2,096</u>	<u>-1,642</u>	<u>-1,628</u>	<u>-1,622</u>	<u>-1,614</u>	<u>-1,604</u>
e	<u>East and Home Counties</u>	<u>-301</u>	<u>709</u>	<u>1,314</u>	<u>1,389</u>	<u>1,408</u>	<u>1,462</u>	<u>1,530</u>
f1	<u>West Midlands</u>	<u>3,408</u>	<u>3,466</u>	<u>3,536</u>	<u>3,580</u>	<u>3,596</u>	<u>3,624</u>	<u>3,416</u>
f2	<u>East Midlands</u>	<u>-6,431</u>	<u>-4,725</u>	<u>-4,714</u>	<u>-4,708</u>	<u>-4,703</u>	<u>-4,703</u>	<u>-4,699</u>
g	<u>North West and North Wales</u>	<u>-2,366</u>	<u>-2,373</u>	<u>-2,385</u>	<u>-2,427</u>	<u>-1,475</u>	<u>-1,715</u>	<u>-2,193</u>
h	<u>Yorkshire and Lincolnshire</u>	<u>-7,679</u>	<u>-7,672</u>	<u>-7,655</u>	<u>-7,658</u>	<u>-7,980</u>	<u>-8,236</u>	<u>-6,263</u>
i	<u>North East</u>	<u>-482</u>	<u>-479</u>	<u>-505</u>	<u>-505</u>	<u>-515</u>	<u>-525</u>	<u>-531</u>

Table 4: Values for BST_n (in MW)

	<u>Relevant year commencing 1 April:</u>					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>BST_n</u>	<u>2,200</u>	<u>2,200</u>	<u>2,200</u>	<u>2,800</u>	<u>3,200</u>	<u>3,200</u>

Table 5: Value for UCAGC_i, UCAZS_i and UCAZD_i (all in £ per MW, 2009/10 prices)

<u>Zone</u>	<u>Description</u>	<u>UCAGC_i</u>	<u>UCAZS_i</u>	<u>UCAZD_i</u>
<u>a</u>	<u>South and South West</u>	<u>20,100</u>	<u>0</u>	<u>26,700</u>
<u>b</u>	<u>Thames Estuary</u>	<u>20,100</u>	<u>80,300</u>	<u>0</u>
<u>c</u>	<u>London</u>	<u>80,300</u>	<u>0</u>	<u>334,400</u>
<u>d</u>	<u>South Wales</u>	<u>20,100</u>	<u>33,500</u>	<u>26,700</u>
<u>e</u>	<u>East and Home Counties</u>	<u>13,400</u>	<u>86,900</u>	<u>20,100</u>
<u>f1</u>	<u>West Midlands</u>	<u>6,700</u>	<u>0</u>	<u>53,600</u>
<u>f2</u>	<u>East Midlands</u>	<u>6,700</u>	<u>73,500</u>	<u>13,400</u>
<u>g</u>	<u>North West and North Wales</u>	<u>40,100</u>	<u>60,200</u>	<u>0</u>
<u>h</u>	<u>Yorkshire and Lincolnshire</u>	<u>20,100</u>	<u>80,300</u>	<u>0</u>
<u>i</u>	<u>North East</u>	<u>20,100</u>	<u>66,900</u>	<u>0</u>

Special Condition AA5A: Balancing Services Activity Revenue Restriction

Part 1

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

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

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

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

where:

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

$CSOBM_p$ which represents the cost to the licensee of bids and offers in the balancing mechanism accepted by the licensee in period p less the total non-delivery charge for that period, is the sum across period p of the values of $CSOBM_j$ (being the daily system operator BM cashflow for each settlement period j as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001);

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

ET_p	means the amount of any adjustment to be made during the period p in respect of any relevant year prior to period p as provided in paragraph 6;
OM_t	means an amount representing the revenue from the provision of balancing services to others during the period p, calculated in accordance with paragraph 7;
$IncPayExt_t$	means an incentive payment for period p calculated in accordance with paragraph 8.
period p	means the period 1 April 2011 to 31 March 2013;
j	shall mean a settlement period (being half an hour) is defined in the BSC.

6. Balancing services activity adjustments

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

- (a) the costs, whether positive or negative, to the licensee of
 - bids and offers in the balancing mechanism accepted by the licensee in any relevant year before period p less the total non-delivery charge for that period; and
 - contracts for the availability or use of balancing services during any relevant year before period p, excluding costs within $CSOBM_p$ for that period, but including charges made by the licensee for the provision of balancing services to itself in that period.

in each case after deducting such costs to the extent that they have been taken into account in any relevant year in computing the terms $CSOBM_p$ or $BSCC_p$; and

- (b) any amount within the term ET_p as defined in this licence in the form it was in on 1 April 2000 whether as then defined or as now defined.

7. Provision of balancing services to others

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

- (a) the total amount (exclusive of interest and value added tax attributable thereto) recovered by the licensee in respect of the period p under any agreements entered into between an electricity supplier (being the holder of a supply licence granted or treated as granted under Section 6(1)(d) of the Act) or network operator (as defined in the Grid Code) and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a user system (as defined in the Grid Code) are charged to that electricity supplier or network operator (as defined in the Grid Code); and
- (b) the total costs (exclusive of interest and value added tax attributable thereto) incurred by the licensee in respect of the period p which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the GB transmission system or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 7 (a) of this special condition) or network operator (as defined in the Grid Code).

8. Determination of incentive payments on external costs

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

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

where:

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

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

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

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

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

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

where:

$TLIC_p$ which is the licensee's incentive performance measure (which may be positive or negative) for minimising the volume of transmission losses and, has the value calculated in accordance with paragraph B3 of Part B of Schedule A.

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

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

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

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

(a) An income adjusting event is any of the following:

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

(ii) an event or circumstance constituting force majeure under the CUSC;

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

where the income adjusting event or circumstance has, for either the relevant year in which the income adjusting event occurred or period p, increased or decreased the value of IBC_t (bearing the meaning of that term in this licence as at 31 March 2011) or IBC_p by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 10(a)(iii) above.

- (b) For the purpose of either the relevant year in which the income adjusting event occurred or period p, events or circumstances arising directly from the implementation or otherwise of the following proposed modifications and amendments (both the original and any alternative unless otherwise specified) listed in tables 1 and 2 below shall not qualify as an income adjusting event for the purpose of paragraph 10(a) above:

Table 1:

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

Table 2:

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

11. Notice of proposed income adjusting event

- (a) Where the licensee considers, and can provide supporting evidence that, in respect of the relevant year in which the income adjusting event occurred or period p, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.

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

- (g) Any notice submitted to the Authority under either paragraphs 11(a) or 11(b) above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:
 - (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
 - (ii) the extent to which the disclosure of the information mentioned in sub-paragraph 11(g)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

12. The Authority's determination

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

- (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 12(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the relevant parties that the Authority considers that the analysis or information provided in accordance with paragraphs 11(c) and/or 11(d) is insufficient to enable the Authority and relevant parties to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.
- (c) The Authority's decision in relation to any notice given under paragraphs 11(a) or 11(b) shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (d) The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

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

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

$$\begin{aligned} \cancel{BX \text{ int}_t} &= \cancel{CSOC_t} + \cancel{IncPayInt_t} + \cancel{NC_t} + \cancel{OFIC_t} + \cancel{IAT_t} + \cancel{IONT_t} \\ \underline{BX \text{ int}_t} &= (CSOC_t * RPIF_t) + IncPayInt_t + NC_t + IAT_t + IONT_t \end{aligned}$$

where:

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

$CSOC_t$ which is the aggregate of all incentivised internal costs associated with the balancing services activity in respect of relevant year t, and shall have the value £102.121m (in 2009/10 prices);

$RPIF_t$ shall have the same meaning as in special condition D2 (Restriction on Transmission Network Revenue).

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

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

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

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

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

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

14. Not used

15. Not used

~~15. Determination of incentivised internal costs~~

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

$$~~CSOC_t = CSOOC_t + CSOCEC_t~~$$

where:

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

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

$$\del CSOCEC_t = CSOD_t + CSOR_t$$

where:

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

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

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

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

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

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

where:

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

Variable	Relevant year					
	2007/08	2008/09	2009/10	2010/11	2011/12	<u>2012/13</u>
CSOCET _t , £ million 2004/05 prices	<u>12.7311</u> 4	<u>8.607.5</u>	<u>9.528.3</u>	<u>8.497.4</u>	<u>7.686.7</u>	<u>27.8</u>

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

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

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

15B. Determination of incentive payments on internal operating costs

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

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

$$IncPayInt = \left(ISF_t \left(\left(1 + \left(\frac{RPIF_t}{100} \right) \right) IMOT_t - CSOOC_t \right) \right) + \left[\sum_M (1 - CSF_{Mt}) (CP_{Mt} - OS_{Mt}) \right]$$

where:

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

if $IMOT_t > CSOOC_t$ then $ISF_t = IUSF_t$ otherwise

$ISF_t = IDSF_t$

where:

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

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

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

	Relevant year					
Variable	2007/08	2008/09	2009/10	2010/11	2011/12	<u>2012/13</u>
$IMOT_t$						<u>59.4</u>
£ million						
2009/10	<u>54.934</u>	<u>53.904</u>	<u>52.644</u>	<u>53.784</u>	<u>53.334</u>	
prices	<u>7.9</u>	<u>7.0</u>	<u>5.9</u>	<u>6.9</u>	<u>6.5</u>	

CSF_{Mt} is a Contingency Provisions (as defined in the BSC from time to time) sharing factor in respect of each month M of relevant year t

and has the value determined in accordance with paragraph B5 of Part B of Schedule A;

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

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

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

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

~~has the meaning given in paragraph 15;~~

~~$RPIF_t$ shall have the same meaning as in special condition D2 (Restriction on Transmission Network Revenue);~~

~~$IRPI_t$ has the meaning given in paragraph 15A.~~

15C. Determination of non-incentivised costs

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

$$NC_t = ON_t \times \left(1 + \frac{RPIF}{100} \right)$$

where:

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

	Relevant year
--	----------------------

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

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

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

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

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

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

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

ON_t unless determined otherwise by the Authority, has the value £1,146,800 (in 2009/10 prices) for the relevant year t and represents an allowance for payments by the licensee in respect of outage changes.

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

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

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

~~$$OFIC_t = OFDC_t + OFOC_t$$~~

~~where:~~

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

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

~~15E. Notice of proposed offshore income adjustment~~

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

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

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

~~15F. The Authority's determination~~

~~Where the licensee has given notice to the Authority pursuant to paragraph 15E, the Authority shall determine (in consultation with the licensee and such other persons as it considers desirable):~~

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

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

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

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

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

~~(a) in any relevant year commencing on or before 1 April 2009, take the value zero;~~

~~(b) in any relevant year during the period 1 April 2010 to 31 March 2013, take that value (subject to paragraph 15H) specified by the licensee in respect of that relevant year in the notice given to the Authority under paragraph 15E(a)(ii); and~~

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

~~15H. Limit on $OFOC_t$~~

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

~~(a) determined by the Authority in accordance with 15F(c)(ii); or~~

~~(b) specified by the licensee in the notice given to the Authority under paragraph 15E(a)(ii) in respect of that relevant year;~~

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

~~_____~~

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

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

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

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

Table 1:

Amendment No.	Amendment Title

17. Notice of proposed income adjusting event

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

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

18. The Authority's determination

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

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

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

19. Not used.

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

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

- (A) such statement fairly presents the value of each of the terms specified in subparagraph (c) in accordance with the requirements of this special condition; and
- (B) the amounts shown in respect of each of those terms are in accordance with the licensee's accounting records which have been maintained in accordance with standard condition B1 (Regulatory accounts).

(c) The terms specified in this subparagraph are:

$BX_{ext,t}$, $CSOB_{M,t}$, $BSCC_t$, ET_t , RT_t , $IncPayExt_t$, OM_t , $BXint_t$, $IncPayInt_t$, $CSOC_t$, $CSOOC_t$, $CSOD_t$, $CSOR_t$, ACE_t and $CP_{M,t}$

and

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

where:

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

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

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

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

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

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

Part 2 (iv): TO incentives

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

- (a) whether a change to the outage plan is an outage change; or
- (b) the net costs reasonably incurred by the transmission owner as a result of an outage change

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

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

- (a) a change to the outage plan requested by a transmission owner (the “original change”); and
- (b) such changes notified to the transmission owner by the licensee which:
 - (i) the licensee and the transmission owner agree are necessary in order to give effect to the original change, or
 - (ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change;

and

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

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

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

- (i) where the actual costs incurred by the licensee in making outage changes are, or where the licensee's reasonable expectation of the actual costs in making outage changes will be either less than or in excess of ON_t in each case by more than £300,000 (the "outage threshold amount) or such other figure as the Authority has specified for the relevant year where ON_t has the value ascribed to it in paragraph ~~14-15C~~ above; and
- (ii) an event or circumstance other than listed above which is, in the opinion of the Authority, an outage cost adjusting event and is approved by it as such in accordance with paragraph 24 of this licence condition.

21. Notice of proposed outage cost adjusting event

- (a) Where the licensee considers, and can provide supporting evidence that, in respect of relevant year t , there have been costs and/or expenses that have been incurred or saved by an outage cost adjusting event, then the licensee shall give notice of this event to the Authority.
- (b) A notice provided to the Authority under paragraph 23(a) shall give particulars of:
 - (i) the event to which the notice relates and the reason(s) why the licensee considers this event to be an outage cost adjusting event;
 - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
 - (iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (iv) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in subparagraph 24(a) to fully assess the event to which the notice relates.
- (c) If the Authority considers that the analysis or information provided in sub-paragraphs 23(b)(i) to 23(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 24(a) to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed income adjustment that should

be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.

- (d) A notice of an outage cost adjusting event shall be given as soon as is reasonably practicable after the occurrence of the outage cost adjusting event, and, in any event, not later than three months after the end of the relevant year in which it occurs.
- (e) The Authority will make public, excluding any confidential information, any notice of an outage cost adjusting event following its receipt.
- (f) Any notice submitted to the Authority under either paragraph 23(a) above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:
 - (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
 - (ii) the extent to which the disclosure of the information mentioned in sub-paragraph 23(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

22. The Authority's determination

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

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

Schedule 2 to Section 11A Modification

Table of the reasons and the effect of the differences between the Conditions in Schedule 1 and the proposed modifications set out in the Notice

Ref	Condition	Licence Term	Reason	Effect
1	SC D3	Paragraph numbering	To retain the existing paragraph numbering in the licence.	Retains SC D3 as per the existing licence.
2	SC D9	$CxInc_{R_0}$	The formula for $CxInc_{R_0}$ was excluded.	Insertion of the $CxInc_{R_0}$ formula.
3	SC D9	RETA _{adj}	ACX_{2012} should be divided by $RPIF_t$ before subtracting the remaining terms.	The value of ACX_{2012} as defined in paragraph 4 will be in 2012/13 price base and will need to be converted to 2009/10 prices to ensure the correct calculation of the revenue adjustment.
4	SC D9	n/a	Paragraph 13(c) should not be adjusted from the current licence.	Revisions to paragraph 13(c) in order to retain its current form.