

# **Supporting Document 1: Draft RIIO-T1 Electricity Transmission licence changes**

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# **SPECIAL CONDITIONS**

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**[ETC19] Special Condition [x]. Restriction of Transmission  
Network Revenue: Definitions**

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## **[ETC 20] Special Condition [x]. Restriction of Transmission Network Revenue**

### **Introduction**

20.1 The purpose of this condition is as follows:

- (a) to establish the charging restrictions that determine the level of [Maximum Revenue/Allowed Transmission Owner Revenue] that may be recovered by the licensee from Transmission Network Charges; and
- (b) to set out the obligations of the licensee in respect of those charging restrictions.

[Transmission Network Charges and Maximum Revenue/Allowed Transmission Owner Revenue will be defined]

### **Part A: Licensee's obligation**

20.2 The licensee, in setting Transmission Network Charges, must use its best endeavours to ensure that, in Relevant Year t, its [Transmission Network Revenue/Regulated Transmission Revenue] (TNR<sub>t</sub>) does not exceed [Maximum Revenue/Allowed Transmission Owner Revenue] (TO<sub>t</sub>) in that year.

### **Part B: Calculation of [Maximum Revenue/Allowed Transmission Owner Revenue]**

20.3 [Maximum Revenue/Allowed Transmission Owner Revenue], in Relevant Year t, is derived in accordance with the following formula (in this condition, the Principal Formula):

$$TO_t = BR_t + PT_t + OIP_t + NIA_t + NICF_t + TIRG_t + DIS_t + TS_t + SHCP_t - K_t$$

20.4 In the Principal Formula:

- TO<sub>t</sub> means the amount of [Maximum Revenue/Allowed Transmission Owner Revenue] in Relevant Year t.
- BR<sub>t</sub> means the amount of Base Transmission Revenue in Relevant Year t as derived in accordance with the formula set out in Part C of this condition.
- PT<sub>t</sub> means the amount of the allowed pass-through items revenue adjustment made in Relevant Year t as derived in accordance with [ETC 21] Special Condition [x] (Calculation of allowed pass-through items).
- OIP<sub>t</sub> means the amount of the output incentive revenue adjustment made in Relevant Year t as derived in accordance with the formula set out in Part D of this condition.

NIA <sub>t</sub>	means the amount of the revenue adjustment made in Relevant Year t in respect of the Network Innovation Allowance as derived in accordance with [ETC 11] Special Condition [x] (The Network Innovation Allowance).
NICF <sub>t</sub> [NGET only]	means the amount of the revenue adjustment made in Relevant Year t in respect of the allowance given under the Network Innovation Competition as derived in accordance with [ETC 10] Special Condition [x] ( The Network Innovation Competition).
TIRG <sub>t</sub>	means, for each TIRG Relevant Year t, the aggregate of the annual revenue allowances for each transmission investment project specified in annex A of [ETC 15] Special Condition [x] (Transmission Investment for Renewable Generation) as derived in accordance with that condition.
DIS <sub>t</sub> [NGET only]	means the amount of the adjustment as a result of:  (a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro-Electric Transmission Ltd and SP Transmission Ltd in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC) minus;  (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 Ltd
TS <sub>t</sub> [NGET only]	means the amount of the adjustment as a result of :  (a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro-Electric Transmission Ltd and SP Transmission Ltd in respect of transmission owner final sums (as such charges are defined in schedule nine of the STC) minus;  (b) an amount equal to the income received by the licensee in 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 and SP Transmission Ltd prior to commencing use of the GB transmission system (for the avoidance of doubt, including any amounts that are treated as capital contributions).
SHCP <sub>t</sub> [SHETL only]	means the amount of the compensatory payments revenue adjustment made in Relevant Year t as derived in accordance with Part D of [ETC 2] Special Condition [x] (Reliability Incentive Adjustment in Respect of Energy Not Supplied).
K <sub>t</sub>	has the value zero in Relevant Year 2013/14, and in each subsequent Relevant Year means the amount of the correction term in Relevant Year t as derived in accordance with the formula set out in Part E of this condition.

### Part C: Calculation of Base Transmission Revenue (BR)



20.5 For the purposes of the Principal Formula, the amount of BR<sub>t</sub> is derived in accordance with the following formula:

$$BR_t = (PU_t + MOD_t + TRU_t) \times RPIF_t$$

20.6 In the formula for the BR<sub>t</sub> term above:

PU<sub>t</sub> means the amount set out, against the licensee's name, in Appendix 1 and represents the opening base revenue allowance determined by the Authority in relation to the transmission of electricity.

MOD<sub>t</sub> has the value zero in Relevant Year 2013/14 and, in each subsequent Relevant Year, is the value of the incremental change for Relevant Year t to the licensee's opening base revenue allowance (set out in Appendix 1) derived from the Annual Iteration of the ET1 Price Control Financial Model and is derived in accordance with the process set out in Parts A and B of [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

RPIF<sub>t</sub> is the price index adjustment factor and is derived in accordance with paragraph 20.7 of this condition.

TRU<sub>t</sub> has the value zero in Relevant Year 2013/14 and, in each subsequent Relevant Year, means the amount of the revenue adjustment made in Relevant Year t in respect of the assumed value of the Retail Prices Index in Relevant Year t-2 minus the actual value of the Retail Prices Index in Relevant Year t-2, and is derived in accordance with paragraph 20.8 of this condition.

20.7 RPIF<sub>t</sub> is derived in accordance with the following formula:

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

where:

$$RPIA_t = \frac{RPI_t}{RPI_{2009/10}}$$

$$GRPIF_t = (0.75 \times GRPIF_c) + (0.25 \times GRPIF_{c+1})$$

$$GRPIF_{t-1} = (0.75 \times GRPIF_{c-1}) + (0.25 \times GRPIF_c)$$

and:

RPI<sub>t</sub> means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Relevant Year t.

[Following definition will appear in the defined terms condition:  
Retail Prices Index means:

a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with all licensees, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with all licensees, determine to be appropriate in the circumstances.]

RPI<sub>2009/10</sub> means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2009 to 31 March 2010.

GRPIF<sub>c</sub> means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Relevant Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication “Forecasts for the UK Economy”, in Relevant Year t-1.

[Following definition will appear in the defined terms condition:  
Retail Prices Index Forecast Growth Rate means:

a) the growth rate (for the avoidance of doubt the growth rate is presented as a percentage) 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 that index in respect of any year has not been published, such index as the Authority may, after consultation with the licensees, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensees, determine to be appropriate in the circumstances.]

20.8 For the purposes of paragraph 20.6 of this condition, TRU<sub>t</sub> is derived in accordance with the following formula:

$$TRU_t = \left( \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right) \times REV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

20.9 In the formula for the TRU<sub>t</sub> term above:

PVF<sub>t</sub> means the present value adjustment term for Relevant Year t and shall be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority for Relevant Year t and the expressions PVF<sub>t-1</sub> and PVF<sub>t-2</sub> shall be interpreted accordingly. [definition of Vanilla Weighted Average Cost of Capital to be defined]

REV<sub>t-2</sub> means the amount (in 2009/10 prices), for Relevant Year t-2, of the combined value of all Special Condition revenue adjustments that are indexed by the Retail Prices Index and is derived in accordance with the following formula:

$$REV_{t-2} = \left( \frac{BR_{t-2} + RB_{t-2} + LF_{t-2} + ITC_{t-2} + TPD_{t-2} + SHCP_{t-2} + IPTIRG_{t-2}}{+FTIRG_{t-2} + ETIRG_{t-2}} \right) / RPIF_{t-2}$$

where:

BR<sub>t-2</sub> means the amount of Base Transmission Revenue in Relevant Year t-2 as derived in accordance with the formula set out in this Part C.

IPTIRG<sub>t-2</sub> means the amount of the annual preconstruction and contingency revenue allowance in Relevant Year t-2 and is represented by the amount set out in Part X of [ETC 15]Special Condition [x].

FTIRG<sub>t-2</sub> means the amount of the annual construction revenue allowance in Relevant Year t-2 and is represented by the amount set out in Part X of [ETC 15]Special Condition [x].

ETIRG<sub>t-2</sub> means the amount of the annual incentive revenue allowance in Relevant Year t-2 and is represented by the amount set out in Part X of [ETC 15]Special Condition [x].

RB<sub>t-2</sub> means the amount of the business rate adjustment in Relevant Year t-2 as derived in accordance with Part B of [ETC 21]Special Condition [x].

LF<sub>t-2</sub> means the amount of the licence fee adjustment in Relevant Year t-2 as derived in accordance with Part C of [ETC 21]Special Condition [x]. [NGET only]

ITC<sub>t-2</sub> means the amount of the inter-transmission system operator compensation mechanism adjustment in Relevant Year t-2 as derived in accordance with Part E of [ETC 21]Special Condition [x]. [NGET only]

TPD<sub>t-2</sub> means the amount of the temporary physical disconnection adjustment in Relevant Year t-2 as derived in accordance with Part D of [ETC 21] Special Condition [x].

SHCP<sub>t-2</sub> means the amount of the compensatory payments revenue adjustment made in Relevant Year t-2 as derived in accordance with Part D of [ETC 2] Special Condition [x]. [SHETL only]

## Part D: Calculation of outputs incentive revenue adjustment (OIP)

20.10 For the purposes of the Principal Formula, the amount of OIP<sub>t</sub> is derived in accordance with the following formula:

$$OIP_t = RI_t + SSO_t + SFI_t + EDR_t + CONADJ_t$$

20.11 In the formula for the OIP<sub>t</sub> term above:

**RI<sub>t</sub>** means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance against a transmission network reliability incentive as derived in accordance with [ETC2] Special Condition [x] (Reliability Incentive Adjustment in Respect of Energy Not Supplied).

**SSO<sub>t</sub>** means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to its stakeholder satisfaction as derived in accordance with [ETC 24] Special Condition [x] (Incentive adjustments relating to the licensee's Stakeholder Satisfaction Output).

**SFI<sub>t</sub>** means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to its SF6 Gas Emission Incentive Scheme as derived in accordance with [ETC25] Special Condition [x] (Incentive in Respect of Sulphur Hexafluoride (SF6) Gas Emissions).

**EDR<sub>t</sub>** means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance under the Environmental Discretionary Reward Scheme as derived in accordance with [ETC 17] Special Condition [x] (Adjustment in Respect of the Environmental Discretionary Reward Scheme).

**CONADJ<sub>t</sub>** means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to offers of timely connection as derived in accordance with Part C of [ETC 1] Special Condition [x] (Financial Incentive for Timely Connections Output).

## Part E: Calculation of the correction term (K)

20.12 For the purposes of the Principal Formula, K<sub>t</sub> is derived in accordance with the following formula:

$$K_t = (TNR_{t-2} - TO_{t-2}) \times \left(1 + \frac{I_{t-2} + PR_t}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

where:

$TNR_{t-2}$  means the [Transmission Network Revenue/Regulated Transmission Revenue as defined in [ETC19] (Restriction of transmission network revenue: Definitions) in respect of the Relevant Year t-2. The only exception to this is for the Relevant Year commencing 1 April 2014 where it shall be the [Transmission Network Revenue/Regulated Transmission Revenue] in respect of the Relevant Year commencing 1 April 2012 that was defined in [Special Condition D1 (NGET) /Special Condition J1 (SHETL/SPTL)] of this licence in the form in which it was in force at 31 March 2012.

$TO_{t-2}$  means the [Maximum Revenue/Allowed Transmission Owner Revenue] as derived in accordance with Part B of this condition in respect of the Relevant Year t-2. The only exception to this is for the Relevant Year commencing 1 April 2014 where it shall be the [Maximum Revenue/Allowed Transmission Owner Revenue] that was derived in accordance with Special Condition D2 (NGET) /Special Condition J2 (SHETL/SPTL) of this licence in the form in which it was in force at 31 March 2012.

$I_t$  means the Average Specified Rate in Relevant Year t.  
[We currently intend that following definition will appear in the defined terms condition: means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made.  
Currently licence definition is: "means the average of the daily base rates of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made."]

$PR_t$  means the interest rate adjustment in Relevant Year t as calculated using the formula set out in Part F of this condition.

#### **Part F: Interest rate adjustment for over and under recoveries of revenue**

20.13 For the purposes of Part E of this condition, the value of the interest rate adjustment  $PR_t$  is to be treated as follows:

- (a) if, in respect of Relevant Year t-2, [Transmission Network Revenue/Regulated Transmission Revenue] exceeds [105.5/104] per cent of [Maximum Revenue/Allowed Transmission Owner Revenue],  $PR_t$  must have the value of 4;
- (b) if, in respect of Relevant Year t-2, [Transmission Network Revenue/Regulated Transmission Revenue] is less than [94.5/96] per cent of [Maximum Revenue/Allowed Transmission Owner Revenue],  $PR_t$  must have the value of zero;

and in all other cases

- (c)  $PR_t$  must have the value of 2.

#### **Part G: Treatment of charges in the event of over recovery**

20.14 If, in respect of each of two successive Relevant Years, the licensee's [Transmission Network Revenue/Regulated Transmission Revenue] exceeds [109.5/108] per cent of [Maximum Revenue/Allowed Transmission Owner Revenue], the licensee:

- (a) must provide an explanation for that event in writing to the Authority by 31 July following the end of the Relevant Years in question; and
- (b) must not increase its Transmission Network Charges during the Relevant Year following the Relevant Years in question, except and to the extent that the Authority has consented to such an increase.

**Part H: Treatment of charges in the event of under recovery**

20.15 If, in respect of each of two successive Relevant Years, the licensee's [Transmission Network Revenue/Regulated Transmission Revenue] is less than 90 per cent of [Maximum Revenue/Allowed Transmission Owner Revenue], the Authority, after consultation with the licensee, may by notice to the licensee specify the value of the term  $TNR_{t-2}$  to be used for the purposes of calculating the licensee's correction factor term ( $K_t$ ) under Part F of this condition.

20.16 The value specified by the Authority for  $TNR_{t-2}$  under paragraph 20.15 may not be lower than the original value for  $TNR_{t-2}$  or higher than 90 per cent of the value of the  $TO_{t-2}$  term to be used in the calculation to which that paragraph refers.

**Appendix 1**

**Values for the  $PU_t$  term (2009/10 prices) by licensee**

**(see paragraph 20.6 of this condition)**

Licensee	$PU_t$ Value (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission	xxx	xxx	xxx	xxx	xxx	xxx		
Scottish Hydro Electric Transmission Ltd	xxx	xxx	xxx	xxx	xxx	xxx		
SP Transmission Ltd								

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## [ETC 21] Special Condition [x]. Calculation of allowed pass-through items

### Introduction

- 21.1 The purpose of this condition is to provide for the calculation of the amount of the term  $PT_t$  (the allowed pass-through term) for the purposes of Part B of [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue).
- 21.2 The effect of the application of the  $PT_t$  term in Part B of [ETC20] Special Condition [x] is to ensure that the level of the licensee's [Maximum Revenue/Allowed Transmission Owner Revenue] derived in accordance with that condition reflects certain costs that can be passed through to users.

### Part A: Formula for Transmission Network Revenue allowed pass-through items ( $PT_t$ )

- 21.3 For the purposes of Part B of [ETC20] Special Condition [x], the total amount of the  $PT_t$  term is derived in accordance with the following formula (in this condition, the Principal Formula):

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

- 21.4 In the Principal Formula:

$RB_t$	means the amount in Relevant Year t as derived in accordance with the formula set out in Part B below, representing the business rate adjustment.
$LF_t$	means the amount in Relevant Year t as derived in accordance with the formula set out in Part C below, representing the licence fee adjustment. [NGET only]
$TPD_t$	means the amount in Relevant Year t as derived in accordance with Part D below, representing the temporary physical disconnection term.
$ITC_t$	means the amount in Relevant Year t as derived in accordance with the formula set out in Part E below, representing the adjustment in respect of participation in the inter-transmission system operator compensation mechanism. [NGET only]
$Term_t$	means the amount equal to the income received by the licensee in Relevant Year t in respect of users who terminate relevant bilateral agreements for connection and/or access rights to the National Electricity Transmission System before commencing use of the national electricity transmission system (and is net of any amounts that are treated as capital contributions). [NGET only]
$TSP_t$	means the amount notified to the licensee by SP Transmission Ltd or any successor company in relation to Relevant Year t pursuant to its electricity transmission licence. [NGET only]



TSH <sub>t</sub>	means the amount notified to the licensee by Scottish Hydro-Electric Transmission Ltd or any successor company in relation to Relevant Year t pursuant to its electricity transmission licence. [NGET only]
TOFTO <sub>t</sub>	means the total of the amounts notified to the licensee by each offshore transmission owner in relation to Relevant Year t pursuant to their electricity transmission licences. [NGET only]
OFET <sub>t</sub>	means the amount equal to the payments made, in total, by the licensee to the electricity distributors with respect to charges for use of electricity distribution systems by offshore generating stations connected to those systems via embedded transmission systems. [NGET only]

### Part B: Calculation of the business rate adjustment term (RB<sub>t</sub>)

21.5 For the purposes of the Principal Formula, but subject to paragraph 21.7, RB<sub>t</sub> is derived in accordance with the following formula:

$$RB_t = \left( \frac{RBA_{t-2}}{RPIA_{t-2}} - RBE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

21.6 In the formula for the RB term above:

RBA<sub>t-2</sub> means the amount payable by the licensee, in Relevant Year t-2, in respect of Non-domestic Rates.

RBE<sub>t-2</sub> means the amount of the allowance in respect of Non-domestic Rates (or any equivalent tax or duty replacing them) in Relevant Year t-2, and is represented by the amount set out in Appendix 1 that applies to the licensee.

RPIA<sub>t-2</sub> has the value given to it by Part C of [ETC20] Special Condition [x].

PVF<sub>t</sub> is the present value adjustment term as defined in Part C of [ETC 20] Special Condition [x].

RPIF<sub>t</sub> has the value given to it by Part C of [ETC20] Special Condition [x].

21.7 In any Relevant Year (“the specific Relevant Year”) in which the revaluation, by The Valuation Office Agency (in England and Wales) or the Scottish Assessors Association (in Scotland), of the assets of the licensee’s Transmission Network for the purposes of setting Non-domestic Rates comes into effect, RB<sub>t</sub> will have the value of zero in that year and in each subsequent Relevant Year, unless The Authority has satisfied itself that the licensee has used best endeavours to minimise the amount of the prescribed Non-domestic Rates. In which case the Authority may direct that the formula set out in this Part B is to apply for the purposes of calculating the RB<sub>t</sub> term in the specific Relevant Year and in each of the subsequent Relevant Years.

### Part C: Calculation of the licence fee adjustment term (LF<sub>t</sub>) [NGET only]

21.8 For the purposes of the Principal Formula, LF<sub>t</sub> is derived in accordance with the following formula:

$$LF_t = \left( \frac{LFA_{t-2}}{RPIA_{t-2}} - LFE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

21.9 In the formula for the LF<sub>t</sub> term above:

- LFA<sub>t-2</sub> means the amount in respect of licence fee payments that is equal to the payments, in total, made by the licensee in Relevant Year t-2, in accordance with its obligations under standard condition A4 (Payments to the Authority).
- LFE<sub>t-2</sub> means the amount of the licence fee allowance in Relevant Year t-2, and is represented by the amount set out in Appendix 2 that applies to the licensee.
- RPIA<sub>t-2</sub> has the value given to it by Part C of [ETC20] Special Condition [x].
- PVF<sub>t</sub> is the present value adjustment term as defined in Part C of [ETC 20] Special Condition [x].
- RPIF<sub>t</sub> has the value given to it by Part C of [ETC20] Special Condition [x].

#### **Part D: Calculation of the temporary physical disconnection term (TPD<sub>t</sub>)**

21.10 For the purposes of the Principal Formula, TPD<sub>t</sub> is an amount derived in accordance with the following formula:

$$TPD_t = \left( \frac{TPA_{t-2}}{RPIA_{t-2}} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

21.11 In the formula for the TPD<sub>t</sub> term above:

- TPA<sub>t-2</sub> means the amount equal to the costs incurred by the licensee in relation to interruption payments made by the system operator in the licensee's transmission area that are charged to the transmission licensee within each respective Relevant Year t-2 in accordance with the provisions of the STC as defined in standard condition A1.
- RPIA<sub>t-2</sub> has the value given to it by Part C of [ETC20] Special Condition [x].
- PVF<sub>t</sub> is the present value adjustment term as defined in Part C of [ETC 20] Special Condition [x].
- RPIF<sub>t</sub> has the value given to it by Part C of [ETC20] Special Condition [x].

#### **Part E: Calculation of the Inter-transmission System Operator compensation mechanism term (ITC<sub>t</sub>) [NGET only]**

21.12 For the purposes of the Principal Formula, ITC<sub>t</sub> is an amount derived in accordance with the following formula:

$$ITC_t = \left( \frac{ITP_{t-2}}{RPIA_{t-2}} - ITA_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

21.13 In the formula for the ITC term above:

$ITP_{t-2}$  means the compensation, in Relevant Year t-2 (whether of a positive or negative value), arising from the participation by Great Britain in the Inter-transmission system operator compensation mechanism as provided for in Article 13 of the Electricity Regulation.

$ITA_{t-2}$  is the Inter-transmission system operator compensation mechanism allowance in Relevant Year t-2 and has the value set out in Appendix 3.

$RPIA_{t-2}$  has the value given to it by Part C of [ETC20] Special Condition [x].

$PVF_t$  is the present value adjustment term as defined in Part C of [ETC 20] Special Condition [x].

$RPIF_t$  has the value given to it by Part C of [ETC20] Special Condition [x].

**APPENDIX 1: Prescribed rates allowance (£m, 2009/10 prices)**

(see paragraph 21.6 relating to the RBE term)

Licensee	RBE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission	xxx	xxx	xxx	xxx	xxx	xxx		
Scottish Hydro Electric Transmission Ltd	xxx	xxx	xxx	xxx	xxx	xxx		
SP Transmission Ltd								

**APPENDIX 2: Licence fee allowance (£m, 2009/10 prices)**

(see paragraph 21.9 relating to the LFE term)

Licensee	LFE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission	xxx	xxx	xxx	xxx	xxx	xxx		
Scottish Hydro Electric Transmission Ltd	xxx	xxx	xxx	xxx	xxx	xxx		
SP Transmission Ltd								

**APPENDIX 3: Inter-transmission system operator compensation mechanism allowance (£m, 2009/10 prices)**

(see paragraph 21.13 relating to the ITA term)

Licensee	ITA (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Scottish Hydro Electric Transmission Ltd	0	0	0	0	0	0	0	0
SP Transmission Ltd	0	0	0	0	0	0	0	0

## [ETC 2] Special Condition [x]. Reliability Incentive Adjustment in Respect of Energy Not Supplied [NGET and SPTL]

### Introduction

- 2.1 The purpose of this condition is to calculate the Reliability Incentive term  $RI_t$ , reflecting the licensee's performance against a transmission network reliability incentive relating to energy not supplied, for the purposes of Part D of [ETC20 – Restriction of Transmission Network Revenue].

### Part A: Adjustment arising from reliability incentive in respect of energy not supplied (RI)

- 2.2 The following formula applies for the purpose of deriving the total amount of the term  $RI_t$  for each of the Relevant Years beginning on 1 April 2013 and 1 April 2014:

$$RI_t = RILEG_t$$

where:

$RILEG_t$

is the combined adjustment reflecting the licensee's performance in each of the Relevant Years beginning on 1 April 2011 and 1 April 2012, and is calculated from the application of the provisions of special condition [D5/J5] of this licence in the form in which that condition was in force at 31 March 2013. For all Relevant Years, except that beginning on 1 April 2014, this term shall equal zero.

- 2.3 The following formula (for the purpose of this condition, the Principal Formula) applies for the purpose of deriving the total amount of the term  $RI_t$  for each of the relevant years beginning on 1 April 2015 and in each subsequent year:

$$RI_t = \max[VOLL_{t-2} \times (ENST_{t-2} - ENSA_{t-2}), -RIDPA \times (BR_{t-2} + TIRG_{t-2})]$$

(the Principal Formula)

where:

$ENSA_{t-2}$

is the sum of the volumes of energy not supplied in all incentivised loss of supply events in Relevant Year t-2, as reported by the licensee in accordance with Standard Condition B15 Regulatory Instructions and Guidance [ETC74].

$ENST_{t-2}$

is the incentivised loss of supply volume target in Relevant Year t-2, as defined in table [x] below and, and has the value of [XX MWh] for each Relevant Year.

$VOLL_{t-2}$

is the value of lost load in Relevant Year t-2, which shall be calculated using the following formula in respect of each Relevant Year t:

$$VOLL_{t-2} = VOLL \times RPIA_{t-2}$$

where VOLL is £[TBA] per MWh in 2009/10 prices), multiplied by the totex incentive rate of [TBA]%.

RIDPA	is the maximum downside percentage adjustment, and shall be set at 3 per cent.
Max (A,B)	means the value that is equal to the greater of A and/or B.
BR <sub>t-2</sub>	means the amount of Base Transmission Network Activity Revenue in Relevant Year t-2 and shall be calculated in accordance with Part [C] of [ETC 20] for that year.
TIRG <sub>t-2</sub>	means value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with [ETC15] Special Condition [x]. Transmission Investment for Renewable Generation.
RPIA <sub>t-2</sub>	has the value given to it by Part C of [ETC 20].

## **Part B: Methodology Statement in respect of Transmission Reliability Incentive**

- 2.4 The licensee must have in place and maintain a transmission reliability incentive methodology statement approved by the Authority that sets out the methodology the licensee will use to calculate the volume of energy not supplied arising from each Incentivised Loss of Supply Event. The licensee must have regard to the approaches taken by the other Transmission Licensees subject to this condition, and to the approved statement prescribed by standard condition C17 (Transmission system security and quality of service) setting out criteria by which system availability, security and service quality of the National Electricity Transmission System may be measured.
- 2.5 The licensee must use reasonable endeavours to apply the methodology that is set out in the transmission reliability incentive methodology statement to calculate the volume of energy not supplied as a result of any Incentivised Loss of Supply Event.
- 2.6 Before revising the transmission reliability incentive methodology statement, the licensee must submit to the Authority a copy of the proposed revisions to that statement.
- 2.7 Unless the Authority otherwise directs within one month after receiving any proposed revisions to the transmission reliability incentive methodology statement, the licensee must use reasonable endeavours to apply the methodology as revised when calculating the volume of energy not supplied as a result of any incentivised loss of supply event occurring after the end of that one month period.
- 2.8 The Authority may direct that the value of ENST in any regulatory period be changed as a result of any proposed revisions to the methodology in order to ensure as far as possible that the measured performance of the licensee against this incentive is the same as if the revision to the measurement methodology had not taken place.

## **Part C: Notification and Treatment of Exceptional Events**

- 2.9 Where the licensee considers that an event on the licensee's transmission system that has caused electricity not to be supplied to a customer has been wholly or partially caused by an Exceptional Event, the licensee must:

- (a) notify the Authority of that event as soon as reasonably practicable but at the latest within 14 days of its occurrence; and
  - (b) provide details of the volume of unsupplied energy that it considers resulted from the exceptional event and such further information, if any, as the Authority may require in relation to that event.
- 2.10 Where the Authority is satisfied that the event notified to it under paragraph 2.9 is an Exceptional Event the Authority may, by notice to the licensee, direct that, for the purpose of calculating the volume of energy not supplied for the relevant incentivised loss of supply event, the constituent data relevant to that event are to be adjusted as specified in that direction.
- 2.11 Any adjustment directed by the Authority is to be based on the extent to which the Authority is satisfied that the licensee had used reasonable endeavours both to prevent the event having the effect of interrupting supply and to mitigate its effect (both before and after it has occurred).
- 2.12 A direction issued by the Authority under paragraph [2.10] is of no effect unless the Authority has first:
- (a) given notice to the licensee that it proposes to issue the direction:
    - (i) specifying the terms of the proposed direction and the date on which it proposes that the direction to be issued should take effect;
    - (ii) setting out the Authority's reasons for proposing to issue the direction;
    - (iii) specifying the time (which must not be less than 28 days from the date of the notice) within which representations may be made; and
  - (b) considered any representations in response to the notice that are duly made and not withdrawn.

#### **Part D: Interpretation**

- 2.13 For the purposes of this condition:
- (a) "Incentivised Loss of Supply Event" means any event on the licensee's transmission system that causes electricity not to be supplied to a customer, subject to the following exclusions:
    - (i) any energy not supplied to customers that have requested a lower standard of connection than that provided in the National Electricity Transmission System Security and Quality of Supply Standard (or such other standard of planning and operation as the Authority may approve from time to time and with which the licensee may be required to comply);
    - (ii) any energy not supplied resulting from a shortage of available generation;
    - (iii) any energy not supplied resulting from a de-energisation or disconnection of a user's equipment under an event of default as defined in the CUSC;

- (iv) any energy not supplied resulting from a user's request for disconnection in accordance with the Grid Code;
  - (v) any energy not supplied resulting from emergency de-energisation by a user as defined in the CUSC;
  - (vi) any energy not supplied 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 otherwise to ensure public safety;
  - (vii) any event of less than three minutes' duration;
  - (viii) any energy not supplied as a result of a delay in the national electricity transmission system operator responding to a communication from the licensee; and
  - (ix) energy that would otherwise have been unsupplied that is made available from a connected distribution system.
- (b) For the purpose of paragraph A6, [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 [X] faults being recorded by the licensee on the licensee's transmission system in any 24 hour period, governmental restraint, Act of Parliament, any other legislation, bye law or directive (not being any order, regulation or direction under section [32], [33],[34] and[35] [Note: we believe that the numbers of these sections have changed in the most recent version of the Act. Further work is needed to ascertain the correct numbers] 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].



## [ETC 2] Special Condition [x]. Reliability Incentive Adjustment in Respect of Energy Not Supplied [SHETL]

### Introduction

- 2.1 The purpose of this condition is to calculate the Reliability Incentive term (RI), whether positive or negative, reflecting the licensee's performance against a transmission network reliability incentive relating to energy not supplied for the purposes of Part D of [ETC20 – Restriction of Transmission Network Revenue].

### Part A: Adjustment arising from reliability incentive in respect of energy not supplied (RI)

- 2.2 The following formula applies for the purpose of deriving the total amount of the term RI for each of the relevant years beginning on 1 April 2013 and 1 April 2014:

$$RI_t = RILEG_t$$

where:

$RILEG_t$  is the combined adjustment reflecting the licensee's performance in each of the Relevant Years beginning on 1 April 2011 and 1 April 2012, and is calculated from the application of the provisions of special condition [D5/J5] of this licence in the form in which that condition was in force at 31 March 2013. For all Relevant Years, except that beginning on 1 April 2014, this term shall equal zero.

- 2.3 The following formula (for the purpose of this condition, the Principal Formula) applies for the purpose of deriving the total amount of the term  $RI_t$  for the Relevant Year beginning on 1 April 2015 and in each subsequent Relevant Year:

$$RI_t = \max[VOLL_{t-2} \times (ENST_{t-2} - ENSA_{t-2}), -RIDPA \times (BR_{t-2} + TIRG_{t-2})]$$

(the Principal Formula)

where:

$ENSA_{t-2}$  is the sum of the volumes of energy not supplied in all incentivised loss of supply events in Relevant Year t-2, as reported by the licensee in accordance with Standard Condition B15 Regulatory Instructions and Guidance [ETC74].

$ENST_{t-2}$  is the incentivised loss of supply volume target in Relevant Year t-2, as defined in table [x] below and, and has the value of [XX MWh] for each Relevant Year.

$VOLL_{t-2}$  is the value of lost load in Relevant Year t-2, which shall be calculated using the following formula in respect of each Relevant Year t:

$$VOLL_{t-2} = VOLL \times RPIA_{t-2}$$

where VOLL is £[TBA] per MWh in 2009/10 prices), multiplied by the totex incentive rate of [TBA]%.

RIDPA	is the maximum downside percentage adjustment, and shall be set at 3 per cent.
Max (A,B)	means the value that is equal to the greater of A and/or B.
BR <sub>t-2</sub>	means the amount of Base Transmission Network Activity Revenue in Relevant Year t-2 and shall be calculated in accordance with Part [C] of [ETC 20] for that year.
TIRG <sub>t-2</sub>	means value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with [ETC15] Special Condition [x]. Transmission Investment for Renewable Generation.
RPIA <sub>t-2</sub>	has the value given to it by Part C of [ETC 20].

## **Part B: Methodology Statement in respect of Reliability Incentive**

- 2.4 The licensee must have in place and maintain a transmission reliability incentive methodology statement approved by the Authority that sets out the methodology the licensee will use to calculate the volume of energy not supplied arising from each Incentivised Loss of Supply Event. The licensee must have regard to the approaches taken by the other Transmission Licensees subject to this condition, and to the approved statement prescribed by standard condition C17 (Transmission system security and quality of service) setting out criteria by which system availability, security and service quality of the National Electricity Transmission System may be measured.
- 2.5 The licensee must use reasonable endeavours to apply the methodology that is set out in the transmission reliability incentive methodology statement to calculate the volume of energy not supplied as a result of any Incentivised Loss of Supply Event.
- 2.6 Before revising the transmission reliability incentive methodology statement, the licensee must submit to the Authority a copy of the proposed revisions to that statement.
- 2.7 Unless the Authority otherwise directs within one month after receiving any proposed revisions to the transmission reliability incentive methodology statement, the licensee must use reasonable endeavours to apply the methodology as revised when calculating the volume of energy not supplied as a result of any incentivised loss of supply event occurring after the end of that one month period.
- 2.8 The Authority may direct that the value of ENST in any regulatory period be changed as a result of any proposed revisions to the methodology in order to ensure as far as possible that the measured performance of the licensee against this incentive is the same as if the revision to the measurement methodology had not taken place.

## **Part C: Notification and Treatment of Exceptional Events**

- 2.9 Where the licensee considers that an event on the licensee's transmission system that has caused electricity not to be supplied to a customer has been wholly or partially caused by an Exceptional Event, the licensee must:
  - (a) notify the Authority of that event, as soon as reasonably practicable, but at the latest, within 14 days of its occurrence; and

- (b) provide details of the volume of unsupplied energy that it considers resulted from the exceptional event and such further information, if any, as the Authority may require in relation to that event.
- 2.10 Where the Authority is satisfied that the event notified to it under paragraph 2.9 is an Exceptional Event the Authority may, by notice to the licensee, direct that, for the purpose of calculating the volume of energy not supplied for the relevant incentivised loss of supply event, the constituent data relevant to that event are to be adjusted as specified in that direction.
- 2.11 Any adjustment directed by the Authority is to be based on the extent to which the Authority is satisfied that the licensee had used reasonable endeavours both to prevent the event having the effect of interrupting supply and to mitigate its effect (both before and after it has occurred).
- 2.12 A direction issued by the Authority under paragraph [2.10] is of no effect unless the Authority has first:
- (a) given notice to the licensee that it proposes to issue the direction:
    - (i) specifying the terms of the proposed direction and the date on which it proposes that the direction to be issued should take effect;
    - (ii) setting out the Authority's reasons for proposing to issue the direction;
    - (iii) specifying the time (which must not be less than 28 days from the date of the notice) within which representations may be made; and
  - (b) considered any representations in response to the notice that are duly made and not withdrawn.

#### **Part D: Compensatory Payments Adjustment**

- 2.13 For the purposes of this paragraph Part B of [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue), SHCP<sub>t</sub> is derived in accordance with the following formula:

$$SHCP_t = (DCP_{t-2} + CCP_{t-2}) \times RPIF_t$$

- 2.14 In the formula for SHCP<sub>t</sub> set out under paragraph 2.13:

DCP<sub>t-2</sub> is the sum of payments made to domestic customers corresponding to loss of supply events during the Relevant Year t-2, as derived in accordance with paragraph 2.15.

CCP<sub>t-2</sub> is the sum of payments made to commercial customers corresponding to loss of supply events during Relevant Year t-2, as derived in accordance with paragraph 2.16.

RPIF<sub>t</sub> has the value given to it by Part C of [ETC20] Special Condition [x].

- 2.15 For the purpose of paragraph 2.14, DCP<sub>t-2</sub> is derived in accordance with the following formula:

$$DCP_{t-2} = (DCOS_{t-2} \times DC_{t-2}) + (EDCOS_{t-2} \times EDC_{t-2})$$

where:

DCOS<sub>t-2</sub> is the total number of domestic customers off supply for a period of six hours or more in respect of the incentive period y, corresponding to the Relevant Year t-2, eligible for compensatory payment in accordance with the licensee's Compensatory Payment Statement in force at the time of the loss of supply event and as reported by the licensee in accordance with ETC 74] Special Condition [x]. Regulatory Instructions and Guidance.

DC<sub>t-2</sub> is the compensatory payment, in 2009/10 prices, for domestic customers set out in the licensee's Compensatory Payment Statement in force at the time of the loss of supply event.

EDCOS<sub>t-2</sub> is the total number of domestic customers off supply for a period of twelve hours or more in respect of the incentive period y, corresponding to the Relevant Year t-2, eligible for enhanced compensatory payment in accordance with the licensee's Compensatory Payment Statement in force at the time of the loss of supply event and as reported by the licensee in accordance with ETC 74] Special Condition [x]. Regulatory Instructions and Guidance.

EDC<sub>t-2</sub> is the enhanced compensatory payment, in 2009/10 prices, for domestic customers set out in the licensee's Compensatory Payment Statement in force at the time of the loss of supply event.

2.16 For the purpose of paragraph 2.14, CCP<sub>t-2</sub> is derived from the following formula:

$$CCP_{t-2} = (CCOS_{t-2} \times CC_{t-2}) + (ECCOS_{t-2} \times ECC_{t-2})$$

where:

CCOS<sub>t-2</sub> is the total number of commercial customers off supply for a period of six hours or more in respect of the incentive period y, corresponding to the Relevant Year t-2, eligible for compensatory payment in accordance with the licensee's Compensatory Payment Statement in force at the time of the loss of supply event and as reported by the licensee in accordance with [ETC 74] Special Condition [x]. Regulatory Instructions and Guidance.

CC<sub>t-2</sub> is the compensatory payment, in 2009/10 prices, for commercial customers set out in the licensee's Compensatory Payment Statement in force at the time of the loss of supply event.

ECCOS<sub>t-2</sub> is the total number of commercial customers off supply for a period of twelve hours or more in respect of the incentive period y, corresponding to the Relevant Year t-2, eligible for enhanced compensatory payment in accordance with the licensee's Compensatory Payment Statement in force at the time of the loss of supply event and as reported by the licensee in accordance with [ETC 74] Special Condition [x]. Regulatory Instructions and Guidance.

ECC<sub>t-2</sub> is the enhanced compensatory, in 2009/10 prices, for commercial customers set out in the licensee's Compensatory

Payment Statement in force at the time of the loss of supply event.

- 2.17 For the purpose of facilitating the Compensatory Payments referred to within this condition, the licensee must have in place and maintain a Compensatory Payment Statement in accordance with Part E of this condition.

#### **Part E: Compensatory Payment Statement**

- 2.18 The licensee must have in place and maintain a Compensatory Payment Statement approved by the Authority that sets out the methodology by which the licensee will identify eligible customers and process compensatory payments for off supply events.
- 2.19 The licensee must use reasonable endeavours to apply the methodology that is set out in that statement for the purpose of identifying eligible customers and processing compensatory and enhanced compensatory payments.
- 2.20 Before revising the methodology, the licensee must submit to the Authority a copy of the proposed revisions.
- 2.21 Unless the Authority otherwise directs within one month after receiving any proposed revisions to the methodology, the licensee must use reasonable endeavours to apply the methodology as revised in accordance with the proposed revisions.

#### **Part F: Interpretation**

- 2.22 For the purposes of this condition:
- (a) “Incentivised Loss of Supply Event” means any event on the licensee’s transmission system that causes electricity not to be supplied to a customer, subject to the following exclusions:
- (i) any energy not supplied to customers that have requested a lower standard of connection than that provided in the National Electricity Transmission System Security and Quality of Supply Standard (or such other standard of planning and operation as the Authority may approve from time to time and with which the licensee may be required to comply);
  - (ii) any energy not supplied resulting from a shortage of available generation;
  - (iii) any energy not supplied resulting from a de-energisation or disconnection of a user’s equipment under an event of default as defined in the CUSC;
  - (iv) any energy not supplied resulting from a user’s request for disconnection in accordance with the Grid Code;
  - (v) any energy not supplied resulting from emergency de-energisation by a user as defined in the CUSC;
  - (vi) any energy not supplied 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 otherwise to ensure public safety;
  - (vii) any event of less than three minutes’ duration;

- (viii) any energy not supplied as a result of a delay in the national electricity transmission system operator responding to a communication from the licensee; and
  - (ix) energy that would otherwise have been unsupplied that is made available from a connected distribution system.
- (b) For the purpose of paragraph A6, [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 [X] faults being recorded by the licensee on the licensee’s transmission system in any 24 hour period, governmental restraint, Act of Parliament, any other legislation, bye law or directive (not being any order, regulation or direction under section [32], [33],[34] and[35] Note: we believe that the numbers of these sections have changed in the most recent version of the Act. Further work is needed to ascertain the correct numbers] 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.

## [ETC24] Special Condition [x]. Stakeholder Satisfaction Output

### Introduction

- XX.1 The purpose of this condition is to set out the mechanism for calculating the value of the licensee's Stakeholder Satisfaction Output (SSO<sub>t</sub>) term.
- XX.2 The effect of the application of the SSO<sub>t</sub> term in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) is to adjust the amount of the Outputs Incentive Payment (OIP<sub>t</sub>) term in Part D of that condition in order to reflect the licensee's performance in relation to its Stakeholder Satisfaction Output.

### Part A: Formula for the Stakeholder Satisfaction Output term

- XX.3 For the purposes of Part D of [ETC 20] Special condition [x], the value of the SSO<sub>t</sub> term is derived in accordance with the following formula:

$$SSO_t = SER_t + SSS_t$$

where:

SSO<sub>t</sub> (the Stakeholder Satisfaction Output term) means the value of an adjustment to the amount of the licensee's Outputs Incentive Payment (OIP<sub>t</sub>) under Part [D] of [ETC 20] Special condition [x] in respect of the licensee's performance in relation to its Stakeholder Satisfaction Output in Relevant Year t.

SER<sub>t</sub> (the Stakeholder Engagement Reward term) means a positive adjustment (if any) that may be determined by the Authority pursuant to the provisions of Part B below in recognition of the licensee's demonstration that effective stakeholder engagement by it has led to High Quality Outcomes for its stakeholders in respect of performance in Relevant Year t-2.

SSS<sub>t</sub> (the Stakeholder Satisfaction Survey term) means the adjustment that is required in respect of the licensee's survey performance in Relevant Year t in relation to the Target Stakeholder Satisfaction Survey Score in that year, and is calculated in accordance with the provisions of Part D below.

### Part B: Determination of the Stakeholder Engagement Reward

- XX.4 The maximum value of the SER term for each Relevant Year that can be determined by the Authority for the licensee is to be derived in accordance with the following formula:

$$SER_t \text{ max} = 0.005 \times (BR_{t-2} + TIRG_{t-2})$$

- XX.5 The maximum value is derived in accordance with the provisions of Part [C] of [ETC 20] Special condition [x].
- XX.6 For Relevant Years 2013/14 and 2014/15, SER<sub>t</sub> will equal zero.
- XX.7 The licensee may apply to be awarded a Stakeholder Engagement Reward in respect of Relevant Year t-2 in accordance with such procedures, timescales and minimum

eligibility criteria as may be set out in the Stakeholder Engagement Reward Guidance that is published on Ofgem’s website (and that may be modified from time to time in accordance with the provisions of Part C below).

- XX.8 In addition to making provision for the matters mentioned in paragraph XX.7, the Stakeholder Engagement Reward Guidance may also make provision for:
- (a) the appointment, by the Authority, of persons who will allocate the Stakeholder Engagement Reward; and
  - (b) the manner and process by which such assessments will be made and any rewards will be awarded.

### **Part C: Modification of the Stakeholder Engagement Reward Guidance**

XX.9 The Stakeholder Engagement Reward Guidance may be modified by the Authority by direction following the procedure set out in this Part C.

XX.10 A direction issued by the Authority under paragraph XX.9 is of no effect unless the Authority has first:

- (a) given Notice to all licensees in whose licence this condition has effect, that it proposes to modify the Guidance:
  - (i) specifying the date on which it proposes that the provisions of the modified Guidance should take effect;
  - (ii) setting out the text of the modified Guidance and the Authority’s reasons for the proposed modifications;
  - (iii) specifying the time (which must not be less than a period of 28 days from the date of the notice) within which representations may be made.
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

### **Part D: Adjustments arising from the Stakeholder Satisfaction Survey**

[See Appendix 1A (NGET/NGGT) and 1B (SPTL and SHETL) of this condition. The drafting reflects the TO’s latest proposals for Part D (and in the case of SPTL /SHETL further new parts to explain the components of their proposed approach). We have been discussing these approaches in general terms with them over the year. However, at this stage we are still reviewing the drafting proposed and would welcome views]

### **Part E: Interpretation**

XX.11 For the purposes of this condition:

Customer	means any Stakeholder who pays the licensee through network charges.
High Quality Outcomes	for the purposes of determinations made by the Authority pursuant to the provisions of Part B above, “high quality outcomes” will be defined in the Stakeholder Engagement Reward Guidance in relation to the key areas of assessment set out in the Guidance for the year in question.



Stakeholder refers to the general body of persons (including but not limited to customers or other actual users of the licensee’s network) who are materially affected by the licensee’s operations. [New element of this definition to be added to define customers. This is because responses from customers might need to be differentiated from stakeholders in the survey results].

Stakeholder [to be inserted]  
Satisfaction Output

Target Stakeholder [to be inserted]  
Satisfaction Survey  
Score

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## Appendix 1A [NGET]

### Part D: Adjustments arising from the customer and stakeholder satisfaction surveys

24.13 The amount of the SSS term (relating to the customer and stakeholder satisfaction surveys) is derived from the following formula:

$$SSS_t = BR_t \times [(CSSAF_t \times CSSPRO_t) + (SSSAF_t \times [1 - CSSPRO_t])]$$

where:

**BR<sub>t</sub>** means the amount of Base Transmission Network Activity Revenue in relevant year t and shall be calculated in accordance with Part [C] of [ETC20].

**CSSAF<sub>t</sub>** is the revenue adjustment factor based on the licensee's performance against the customer satisfaction survey in the relevant year t, and is derived from the following formula:

If  $CSSP_t > CSST$ :

$$CSSAF_t = \min \left( CSSUPA, CSSUPA \left[ \frac{CSSP_t - CSST}{CSSCAP - CSST} \right] \right)$$

If  $CSSP_t < CSST$ :

$$CSSAF_t = \max \left( CSSDPA, CSSDPA \left[ \frac{CSST - CSSP_t}{CSST - CSSCOL} \right] \right)$$

Otherwise:

$$CSSAF_t = 0$$

where:

**CSST** is the customer satisfaction survey target, and shall have the value 6.9.

**CSSCAP** is the customer satisfaction survey cap, and shall have the value 8.5.

**CSSUPA** is the customer satisfaction maximum upside percentage adjustment, and shall have the value 1%.

**CSSCOL** is the customer satisfaction survey collar, and shall have the value of 5.3.

**CSSDPA<sub>t</sub>** is the customer satisfaction maximum downside percentage adjustment, and shall have the value -1%.

CSSP<sub>t</sub> is the overall customer satisfaction survey result in the relevant year t;

Min(A,B) means the value equal to the lesser of A and B; and

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

SSSAF<sub>t</sub> is the revenue adjustment factor based on the licensee's performance against the stakeholder satisfaction survey in the relevant year t, and is derived from the following formula:

If  $SSSP_t > SSST_t$ :

$$SSSAF_t = \min \left( SSSUPA_t, SSSUPA_t \left[ \frac{SSSP_t - SSST_t}{SSSCAP_t - SSST_t} \right] \right)$$

If  $SSSP_t < SSST_t$ :

$$SSSAF_t = \max \left( SSSDPA_t, SSSDPA_t \left[ \frac{SSST_t - SSSP_t}{SSST_t - SSSCOL_t} \right] \right)$$

Otherwise:

$$SSSAF_t = 0$$

where:

SSST<sub>t</sub> is the stakeholder satisfaction survey target, and shall have the value [X].

SSSCAP<sub>t</sub> is the stakeholder satisfaction survey cap and shall have the value [Y].

SSSUPA<sub>t</sub> is the stakeholder satisfaction maximum upside percentage adjustment and shall have the value 1%.

SSSCOL<sub>t</sub> is the stakeholder satisfaction survey collar and shall have the value [Z].

SSSDPA<sub>t</sub> is the stakeholder satisfaction maximum downside percentage adjustment, and shall have the value -1%.

SSSP<sub>t</sub> is the overall stakeholder satisfaction survey result in the relevant year t.

Min(A,B) means the value equal to the lesser of A and B; and

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

CSSPRO<sub>t</sub> is the proportion of the customer and stakeholder satisfaction incentive which will be based on the customer satisfaction survey in respect of relevant year t, which has the value as specified in the following table:

Relevant year t	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
CSSPRO <sub>t</sub>	1	[TBC]	[TBC]	[TBC]	[TBC]	[TBC]	[TBC]	[TBC]

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## Appendix 1B [SPTL and SHETL]

### Part D: Adjustments arising from Stakeholder Satisfaction Incentive

24.12 For Relevant Years 2013/14 and 2014/15, SSIt shall equal zero.

24.13 The value of the  $SSI_t$  term (relating to the Stakeholder Satisfaction Incentive) is derived in accordance with the following formula:

$$SSI_t = 0.01 \times (0.3SS_{t-2} + 0.6SKPI_{t-2} + 0.1SEA_{t-2}) \times (BR_{t-2} + TIRG_{t-2})$$

where:

$SS_{t-2}$  means the adjustment factor in respect of the licensee's performance in relevant year t-2 in the Stakeholder Satisfaction Survey as provided for in Part E of this condition. The value of  $SS_{t-2}$  will be determined by the formula:

$$SS_{t-2} = \max(\min((SSC_{t-2}-5) \times 0.25), 1), -1)$$

where

$SSC_{t-2}$  means the licensee's Stakeholder Satisfaction Score in respect of relevant year t-2, being a value between 1 and 10 inclusive, based on responses to the question in relation to overall stakeholder satisfaction specified in paragraph 24.15.

$SKPI_{t-2}$  means the adjustment factor in respect of the licensee's performance in relevant year t-2 against the Key Performance Indicators as provided for in Part F of this condition. The value of  $SKPI$  will be determined by the formula:

$$SKPI_{t-2} = \max(\min((KPI_{t-2}-50) \times 0.025), 1), -1)$$

where

$KPI_{t-2}$  means the licensee's measured score against its Key Performance Indicators, being a value between 0 and 100 inclusive.

SEA<sub>t-2</sub> means the adjustment in respect of the licensee’s performance in relevant year t-2 in its External Assurance of its Stakeholder Engagement as provided for in Part G of this condition. The value of SEA will be determined by the banding table below:

SEA Band	SEA value <sub>t-2</sub>
<b>Non-Compliant with stakeholder strategy</b>	-1.0
<b>Compliant with stakeholder Strategy</b>	0.5
<b>Exceeding stakeholder strategy</b>	1.0

BR<sub>t-2</sub> means the amount of Base Transmission Network Activity Revenue in Relevant Year t-2 and shall be calculated in accordance with Part [C] of [ETC 20] for that year.

TIRG<sub>t-2</sub> means the value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with [ETC15] Special Condition [x]. Transmission Investment for Renewable Generation.

**Part E: Stakeholder Satisfaction Survey**

- 24.14 Unless otherwise agreed with the Authority, the licensee must carry out a survey at least once a year to assess stakeholder satisfaction with its activities.
- 24.15 The licensee may include such questions as it deems appropriate, subject to the inclusion of one question that asks for overall stakeholder satisfaction to be rated on a scale of 1 to 10, when 1 is low and 10 is high.
- 24.16 The licensee must report on the outcomes of this overall stakeholder satisfaction question in accordance with Standard Condition [X] RIGs.
- 24.17 The licensee shall share the outcomes from this survey with the Authority, other licensees within whose licence a condition of like effect to this condition is in force and other interested parties at its own discretion.

24.18 The Authority shall review the licensee's approach to conducting the survey and reporting the outcome of the satisfaction question as required by paragraph 24.17 and provide feedback to the licensee.

#### **Part F: Key Performance Indicators**

24.19 The licensee shall, within one month of this condition entering into force, submit Key Performance Indicators to the Authority for approval for use in relation to Part D of this condition.

24.20 The licensee shall set out in its proposed Key Performance Indicators the methodology that will be used to derive an overall Key Performance Score for use in deriving the term  $SKPI_{t-2}$ .

24.21 Where the licensee has complied with the requirements of paragraphs 24.19 and 24.20, it shall, unless the Authority has within 28 days of the report being furnished to it given a direction that the modification may not be made, implement the proposed Key Performance Indicators.

24.22 Unless the Authority makes a direction under paragraph 24.21, the licensee shall within ten working days of the expiration of the period referred to in paragraph 24.21 make a copy of the Key Performance Indicators available on its website.

24.23 The licensee shall report annually on its performance against these Key Performance Indicators in accordance with Standard Condition [X] RIGs.

24.24 The licensee shall review the Key Performance Indicators /at least once every two year to ensure that they continue to provide an objective measure of the service provided.

24.25 The licensee shall, subject to paragraphs 24.26 and 24.27, make such modifications to its Key Performance Indicators as may be required to better measure the service provided.

24.26 Before making a modification to the Key Performance Indicators, the licensee shall furnish the Authority with a report setting out:

- (a) the proposed modification to the Key Performance Indicators;
- (b) the details of consultation undertaken with stakeholders on the proposed modification;
- (c) any representations made to the licensee in respect of the Key Performance Indicators and/or the proposed modification;
- (d) how the proposed modification provides a better measure of the service provided, including an explanation of the additions/removals proposed and how these improve the Key Performance Indicators; and

- (e) a timetable for the implementation of the proposed modification, provided that no modification may be implemented prior to the date on which the period referred to in paragraph 24.27 expires.

24.27 Where the licensee has complied with the requirements of paragraph 24.26, it shall, unless the Authority has within 28 days of the report being furnished to it given a direction that the modification may not be made, implement the modification to the Key Performance Indicators.

24.28 Where a modification is made, the Authority shall propose any corresponding changes to the specific reporting arrangements in accordance with standard condition [ETC74] [RIGs] as it considers appropriate.

### **Part G: External Assurance of Stakeholder Engagement**

24.29 The licensee shall, within one month of this condition entering into force, submit External Assurance Methodology and Terms of Reference to the Authority for approval for use in relation to Part D of this condition.

24.30 The licensee shall set out in its proposed External Assurance Methodology and Terms of Reference the methodology that will be used to derive an overall External Assurance Score for use in deriving term  $SEA_{t-2}$ .

24.31 Where the licensee has complied with the requirements of paragraphs 24.29 and 24.30, it shall, unless the Authority has within 28 days of the report being furnished to it given a direction that the External Assurance Methodology and Terms of Reference may not be used, implement the proposed External Assurance Methodology and Terms of Reference.

24.32 The licensee shall report annually on its performance against External Assurance Methodology and Terms of Reference in accordance with [ETC74] Standard Condition [X] RIGs.

24.33 The licensee shall review the External Assurance Methodology and Terms of Reference from time to time/at least once every two years to ensure that they provide an objective measure of the inclusion of stakeholder views.

24.34 The licensee shall, subject to paragraphs 24.35 and 24.36, make such modifications to its External Assurance Methodology and Terms of Reference as may be required to better assess the inclusion of stakeholder views.

24.35 Before making a modification to the External Assurance Methodology and Terms of Reference, the licensee shall furnish the Authority with a report setting out:

- (a) the proposed modification to the External Assurance Methodology and Terms of Reference;



- (b) the details of consultation undertaken with stakeholders on the proposed modification;
- (c) any representations made to the licensee in respect of the External Assurance Methodology and Terms of Reference and/or the proposed modification;
- (d) how the proposed modification provides a better assessment of the inclusion of stakeholder views, including an explanation of the additions/removals proposed and how these improve the assessment of stakeholder views; and
- (e) a timetable for the implementation of the proposed modification, provided that no modification may be implemented prior to the date on which the period referred to in paragraph 24.36 expires.

24.36 Where the licensee has complied with the requirements of paragraph 24.26, it shall unless the Authority has within 28 days of the report being furnished to it given a direction that the modification may not be made, implement the modification to the External Assurance Methodology and Terms of Reference.

24.37 Where a modification is made, the Authority shall propose any corresponding changes to the specific reporting arrangements in accordance with [ETC74] Standard condition [X] [RIGs] as it considers appropriate.

## [ETC25] Special condition[x]. Incentive in Respect of Sulphur Hexafluoride (SF6) Gas Emissions [SHETL]

### Introduction

- XX.1 The purpose of this condition is to calculate the value of the Sulphur Hexafluoride Incentive term ( $SFI_t$ ) to reflect the performance of the licensee in relation to actual sulphur hexafluoride (SF6) gas emissions from assets forming the licensee's transmission system compared to the baseline level of SF6 gas emissions for Relevant Year t-2.
- XX.2 The effect of the application of the Sulphur Hexafluoride Incentive term in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) is to adjust the Output Incentive Payment (OIP<sub>t</sub>) term in Part D of that condition.

### Part A: Formula to calculate the Sulphur Hexafluoride Incentive

- XX.3 For the purposes of paragraphs XX.1,  $SFI_t$  for Relevant Year beginning on 1 April 2015 and in each subsequent Relevant Year, are to be derived in accordance with the following formula:

$$SFI_t = (CTE_{t-2} - ALE_{t-2}) \times CF \times NTPC_{t-2} \times RPIA_{t-2}$$

where:

- $CTE_{t-2}$  means the calculated target emissions of sulphur hexafluoride (SF6) in kilograms from assets forming the licensee's transmission system in Relevant Year t-2 in accordance with the formula set out in paragraph XX.4 below.
- $ALE_{t-2}$  means the actual SF6 gas emissions in kilograms from assets forming the licensee's transmission system in Relevant Year t-2 and is calculated by the licensee in accordance with the methodology statement prepared by the licensee in accordance with the provisions of Part B.
- CF Means the conversion factor from kilos of SF6 to tonnes of carbon dioxide equivalent emissions and has a value of 23.9.
- $NTPC_{t-2}$  means the relevant price per one tonne of non-traded carbon dioxide emissions in Relevant Year t-2 as set out in Table 1 below.
- $RPIA_{t-2}$  has the value given to it by Part C of [ETC 20].

**Table 1: Non-traded price of a tonne of carbon dioxide**

£ (2009/10 prices)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21

NTPC								
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XX.4 The following formula is to be used to derive the CTE<sub>t-2</sub> term:

For the Relevant Year beginning on 1 April 2015 and each subsequent Relevant Year:

$$CTE_{t-2} = BASE_{t-2} + SWWE_{t-2}$$

where:

**BASE** means the baseline SF6 gas emissions in kilograms from assets forming the licensee's transmission system as set out in Table 2 below.

**SWWE<sub>t-2</sub>** means the expected additional emissions in kilograms from SF6 assets forming the licensee's transmission system in Relevant Year t-2 as part of SWW Outputs Delivered during the Price Control Period and is to be calculated in accordance with paragraph XX.5.

**Table 2: Baseline SF6 emissions profile in kilograms**

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21

XX.5 The value of SWWE is to be derived from the following formula:

(a) For the Relevant Year beginning on 1 April 2015:

$$SWWE_{t-2} = SWWI_{t-2} \times LR$$

(b) For the Relevant Year beginning on 1 April 2016:

$$SWWE_{t-2} = SWWI_{t-2} \times LR + SWWE_{t-3}$$

where:

**SWWI<sub>t-2</sub>** means the gas inventory of new SF6 assets in kilograms forming the licensee's transmission system in Relevant Year t-2 as part of SWW Outputs Delivered in Relevant Year t-2.

**LR** means the nominal leakage rate of new SF6 assets based on the manufacturer's specification which the licensee documented in its submission to Ofgem for the SWW output.

XX.6 The licensee will report annually on ALE and SWWI as per the Regulatory Reporting Instructions and Guidance issued in accordance with standard condition [ETC71] (Regulatory Instructions and Guidance).

## **Part B: Methodology statement in respect of SF6 gas leakage**

- XX.7 The licensee must submit to the Authority on or before [30 April 2013] (or such later date as the Authority may direct) a statement of methodology (“the statement”) that is consistent with best industry practice for determining actual and expected leakage of SF6 gas from its assets.
- XX.8 The statement must set out the methodology by which the licensee will determine the leakage of SF6 gas from assets forming the licensee’s transmission system for the purposes of determining ALE.
- XX.9 Unless the Authority otherwise directs within one month of the date of submission of the statement by the licensee in accordance with paragraph [XX.7], the licensee must use reasonable endeavours to apply the methodology set out in that statement.
- XX.10 Before revising the methodology set out in the statement, the licensee must submit a copy of the proposed revisions to the Authority.
- XX.11 Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph [XX.10], the licensee must use reasonable endeavours to apply the methodology in accordance with the proposed revisions.

## **Part C: Notification and treatment of Exceptional Events**

- XX.12 Where the licensee considers that an event on its transmission system that causes leakage of SF6 gas has been wholly or partly caused by an Exceptional Event the licensee must:
- (a) notify the Authority of that event as soon as reasonably practicable but at the latest 14 days after its occurrence; and
  - (b) provide details of the event and such further information, if any, as the Authority may require in relation to it.
- XX.13 Where the Authority is satisfied that the event is an Exceptional Event, the Authority may, by notice to the licensee, direct that the value of ALE in Relevant Year t-2 is to be adjusted as specified in that direction.
- XX.14 The Authority’s power to direct the value of any adjustment to ALE in Relevant Year t-2 under paragraph XX.13 includes power to modify the value of any proposed adjustment notified to the Authority by the licensee in that respect.
- XX.15 Any adjustment directed under paragraph XX.13 must 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 gas and to mitigate its effect (both before the event and after it occurred).
- XX.16 A direction issued by the Authority under paragraph [XX.13] is of no effect unless the Authority has first:
- (a) given notice to the licensee that it proposes to issue the direction:
    - (i) specifying the terms of the proposed direction and the date on which it proposes that the direction to be issued should take effect;
    - (i) setting out the Authority’s reasons for proposing to issue the direction;
    - (ii) specifying the time (which must not be less than 28 days from the date of the notice) within which representations may be made.

- (b) considered any representations in response to the notice that are duly made and not withdrawn.

**Part D: Interpretation**

Exceptional Event means, for the purposes of Part C of this condition, an event or circumstance that is beyond the reasonable control of the licensee and results in, causes, or prohibits the timely prevention of the leakage of SF6 gas (and includes any event or circumstance where the risk of significant danger to the public requires the licensee to prioritise health and safety objectives over the reduction of leakage of SF6 gas at a particular site).

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## [ETC25] Special condition[x]. Incentive in Respect of Sulphur Hexafluoride (SF6) Gas Emissions [NGET and SPTL]

### Introduction

- XX.1 The purpose of this condition is to calculate the value of the Sulphur Hexafluoride Incentive term (SFI) to reflect the licensee's performance in relation to actual sulphur hexafluoride (SF6) gas emissions from the licensee's transmission system compared to the baseline level of SF6 gas emissions for Relevant Year t-2.
- XX.2 The effect of the application of the Sulphur Hexafluoride Incentive term in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) is to adjust the Output Incentive Payment (OIP) term in Part D of that condition.

### Part A: Formula to calculate the Sulphur Hexafluoride Incentive

- XX.3 For the Relevant Years beginning on 1 April 2015 and in each subsequent Relevant Year, the term SFI is derived in accordance with the following formula:

$$SFI_t = (CTE_{t-2} - ALE_{t-2}) \times CF \times NTPC_{t-2} \times RPIA_{t-2}$$

where:

- $CTE_{t-2}$  means the calculated target emissions of sulphur hexafluoride (SF6) gas in kilograms from assets forming the licensee's transmission system in Relevant Year t-2 as calculated in accordance with the formula set out in paragraph 4.
- $ALE_{t-2}$  means the actual SF6 gas emissions in kilograms from assets forming the Licensee's transmission system in Relevant Year t-2 and is calculated by the Licensee in accordance with the methodology statement prepared by the licensee in Part B.
- CF means the conversion factor from kilos of SF6 to tonnes of carbon dioxide equivalent emissions and has a value of 23.9.
- $NTPC_{t-2}$  means the relevant price per one tonne of non-traded carbon dioxide emissions in Relevant Year t-2 as set out in Table 1 below.
- $RPIA_{t-2}$  has the value given to it by Part C of [ETC 20].

**Table 1: Non-traded price of carbon dioxide**

£ (2009/10 prices)	2013/14	2014/15	2015/16	2016/17	2018/19	2019/20	2020/21
NTPC	xxx	xxx	xxx	xxx	xxx		

- XX.4 For the purposes of paragraph XX.3 the following formula shall be used to calculate the value of the  $CTE_{t-2}$  term:

For the Relevant Year beginning on 1 April 2015:

$$CTE_{t-2} = \text{BASE} + \text{ADD}_{t-2} - \text{DSP}_{t-2}$$

For the Relevant Year beginning on 1 April 2016 and each subsequent regulatory year:

$$CTE_{t-2} = CTE_{t-3} + \text{ADD}_{t-2} - \text{DSP}_{t-2}$$

where:

BASE	means the target leakage rate of SF6 gas emissions converted into kilograms from assets forming the licensee's transmission system that applied for the Relevant Year 2012/13.
ADD <sub>t-2</sub>	means the expected additional SF6 gas emissions in kilograms from new SF6 assets forming the licensee's transmission system in Relevant Year t-2 as calculated by the licensee in accordance with the methodology statement prepared by the licensee in Part B.
DSP <sub>t-2</sub>	means the expected SF6 reduction in emissions in kilograms from SF6 assets decommissioned from service on the licensee's transmission system in Relevant Year t-2 as calculated by the licensee in accordance with the statement of methodology statement prepared by the licensee in Part B.

XX.5 The licensee will report annually on ALE, ADD and DSP in accordance with the Standard Condition [ETC 74] Regulatory Instructions and Guidance.

### **Part B: Methodology statement in respect of SF6 gas leakage**

XX.6 The licensee must submit to the Authority on or before [31 October 2013] (or such later date as the Authority may direct) a statement of methodology ("the statement") that is consistent with best industry practice for determining actual and expected leakage of SF6 gas from the assets forming the licensee's transmission system.

XX.7 The statement must set out the methodology by which the licensee will determine the leakage of SF6 gas from the assets forming the licensee's transmission system for the purposes of determining ALE, ADD and DSP.

XX.8 Unless the Authority otherwise directs within two months of the date of submission of the statement by the licensee in accordance with paragraph [XX.6], the licensee must use reasonable endeavours to apply the methodology set out in that statement.

XX.9 Before revising the methodology set out in the statement, the licensee must submit a copy of the proposed revisions to the Authority.

XX.10 Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph [10], the licensee must use reasonable endeavours to apply the methodology in accordance with the proposed revisions.

### **Part C: Notification and treatment of Exceptional Events**

XX.11 Where the licensee considers that an event on the licensee's transmission system that causes leakage of SF6 gas has been wholly or partly caused by an Exceptional Event the licensee must:

- (a) notify the Authority of that event as soon as reasonably practicable but at the latest 14 days after its occurrence; and

- (b) provide details of the event and such further information, if any, as the Authority may require in relation to it.

XX.12 Where the Authority is satisfied that the event is an Exceptional Event, the Authority may, by notice to the licensee, direct that the value of ALE in Relevant Year t-2 is to be adjusted as specified in that direction.

XX.13 The Authority's power to direct the value of any adjustment to ALE in Relevant Year t-2 under paragraph 12 includes the power to modify the value of any proposed adjustment notified to the Authority by the licensee in that respect.

XX.14 Any adjustment directed under paragraph XX.12 must 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 gas and to mitigate its effect (both before the event and after it occurred).

XX.15 A direction issued by the Authority under paragraph XX.12, is of no effect unless the Authority has first:

- (a) given notice to the licensee that it proposes to issue the direction:
  - (i) specifying the terms of the direction and the date on which it proposes that the direction to be issued should take effect;
  - (ii) setting out the Authority's reasons for proposing to issue the direction; and
  - (iii) specifying the time (which must not be less than 28 days from the date of the notice) within which representations may be made.
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

#### **Part D: Interpretation**

XX.16 For the purposes of Part C of this condition:

**Exceptional Event** means an event or circumstance that is beyond the reasonable control of the licensee and results in, causes, or prohibits the timely prevention of the leakage of SF6 gas (and includes any event or circumstance where the risk of significant danger to the public requires the licensee to prioritise health and safety objectives over the reduction of leakage of SF6 gas at a particular site).



## **[ETC17] Special Condition [x]. Adjustment in Respect of the Environmental Discretionary Reward Scheme**

### **Introduction**

XX.1 The purposes of this condition are:

- (a) to establish arrangements, to be known as the Environmental Discretionary Reward (EDR) Scheme, for determining the amount of the EDR<sub>t</sub> term; and
- (b) to make provision for arrangements relating to administration, governance and revision of the EDR Scheme.

XX.2 The effect of the application of the EDR<sub>t</sub> term in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) is to adjust upwards the amount of the Outputs Incentive Payment (OIP<sub>t</sub>) term in Part D of that condition in order to reflect the licensee's performance in relation to the EDR Scheme each year.

### **Part A: Objective of the EDR Scheme**

XX.3 The objective of the EDR Scheme is to encourage the licensee to achieve high standards in environmental management as well as facilitate the industry to move towards a low carbon energy system where it can do so effectively and provide value for money to consumers. The activities and areas covered by the EDR Scheme are set out in the EDR Scheme Guidance and comprise both strategic and operational environmental categories the Authority considers relevant to achieve the objective of the EDR Scheme.

XX.4 Under the EDR Scheme the Authority shall determine and approve the amount of the EDR term for each Relevant Year *t* in accordance with Part B below and subject to the relevant provisions of the EDR Scheme Guidance.

### **Part B: Determination of the amount of the EDR term**

XX.5 In each Relevant Year *t*, as provided for by the EDR Scheme Guidance, the Authority will determine and, by direction given to the licensee, specify in accordance with the appropriate provisions set out in the EDR Scheme Guidance the amount of the EDR<sub>t</sub> for the licensee for Relevant Year *t*-2.

XX.6 For the Relevant Year beginning on 1 April 2013 EDR<sub>t</sub> will take the value zero.

XX.7 The annual submission requirements for the licensee, assessment, and implementation of, and other relevant matters relating to, the EDR Scheme are provided for in or pursuant to the EDR Scheme Guidance issued by the Authority under Parts C and D below.

### **Part C: The EDR Scheme Guidance**

XX.8 The EDR Scheme Guidance is a document published, and from time to time revised by the Authority in accordance with Part D for the purposes of setting out the submission requirements, assessment process and procedures, administration, and governance of the EDR Scheme.

- XX.9 The EDR Scheme Guidance may, without limitation, make appropriate provision about or impose requirements in respect of:
- (a) the submission to be made by the licensee to the Authority in respect of the EDR Scheme including the organisations which should be covered in the licensee's submission if the licensee forms part of a larger corporate group, the activity areas to be covered, the type of information and evidence to be provided, and the format of the submission;
  - (b) the Authority's process for assessing any submission made by the licensee, including assessment criteria, the scoring associated with the different performance areas and the appointment and role of any expert panel incorporated in the EDR Scheme process;
  - (c) the process and procedures by which the Authority will determine the amount of the EDR<sub>t</sub> term for Relevant Year t including any reward allocation rules in relation to the Licensee's overall level of performance;
  - (d) the procedures by which the Authority will notify the Licensee with respect to any direction in relation to the amount of the EDR<sub>t</sub> term; and
  - (e) any other matters relating to the administration and governance of the EDR Scheme which appear to the Authority to be appropriate.

XX.10 The licensee must comply with the EDR Scheme Guidance as require its compliance as if it formed part of this condition.

#### **Part D: Establishment and Modification of the EDR Scheme Guidance**

XX.11 The EDR Scheme Guidance may be established or modified by the Authority by direction.

XX.12 A direction issued by the Authority under paragraph 11 is of no effect unless the Authority has first:

- (a) given Notice to all licensees in whose licence this condition has effect that it proposes to establish or modify the EDR Scheme Guidance:
  - (i) specifying the date on which it proposes that the provisions of the EDR Scheme Guidance or modified EDR Scheme Guidance should take effect;
  - (ii) setting out the text of the EDR Scheme Guidance or modified EDR Scheme Guidance and the Authority's reasons for proposing to modify it; and
  - (iii) specifying the time (which must not be less than a period of 28 days from the date of the Notice) within which representations may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

## **[ETC 1]Special Condition [x].Financial Incentive for Timely Connections Output. [SHETL and SPTL only]**

### **Introduction**

- XX.1. The purpose of this condition is to calculate the value of the Timely Connections Output to reflect the licensee's performance in relation to delivering timely connections.
- XX.2. The effect of the application of the  $CONADJ_t$  term in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) is to adjust downwards, the Output Incentive Payment ( $OIP_t$ ) term in Part D of that condition.

### **Part A: Relationship with existing obligations**

- XX.3. The licensee shall offer connection terms in accordance with Standard Condition D4A and through this the STC Section D, Part 2, Paragraph 4.8 (subject to paragraph 4.9 of that same part).
- XX.4. Where under Standard Condition D4A the Authority consents to a longer period of time than the above requirements, this shall be the relevant time for the assessment of timely offering of connection terms in this/these case(s).
- XX.5. This condition in no way limits our licence enforcement powers relating to connections. Any adjustment to revenues (as part of this) condition are additional to the Authorities potential enforcement powers and would in no way affect these powers.

### **Part B: Process for assessing performance**

- XX.6. On 1 November each year from 1 November 2014, the Authority shall consider whether the licensee has offered timely connection terms during the Relevant Year t-1.
- XX.7. Where the licensee has offered terms in accordance with its licence or as otherwise consented to by the Authority, no revenue adjustment shall be made.
- XX.8. Where the licensee fails to offer terms in accordance with its licence or as otherwise consented to by the Authority, the Authority may give notice of a revenue reduction.
- XX.9. The revenue reduction shall be subject to a maximum cap of 0.5% of the sum of the licensee's Base Transmission Network Activity Revenue and Transmission Investment for Renewable Generation as set out in Part C.
- XX.10. The level of revenue reduction shall be proportionate to the number of connections in respect of which the licensee is unable to offer terms in accordance with the times specified in their licence condition and STC or altered timing consented to by the Authority.

### **Part C: Revenue adjustment formulae**

- XX.11.  $CONADJ_t$  is the adjustment made to annual revenue from 1 April of any year t through a notice served by the Authority following its assessment of the licensee's performance in Relevant Year t-2.
- XX.12. In any year t the value of  $CONADJ_t$  shall be specified in the notice subject to paragraph [XX.8] above and calculated as follows:

$$\text{CONAD}_t = \left( \frac{\text{untimely offers}_{t-2}}{\text{total offers}_{t-2}} \right) \times 0.005 \times (\text{BR}_{t-2} + \text{TIRG}_{t-2})$$

**Part D: Interpretation**

XX.13. For the purposes of this condition:

- Untimely Offers<sub>t-2</sub> are connection offers made outside the specified time in the paragraph and condition(s) in Part A of this condition.
- Total Offers<sub>t-2</sub> are consistent with the specified time in the paragraph and condition(s) referred to in Part A of this condition.
- BR<sub>t-2</sub> means the amount of Base Transmission Network Activity Revenue in Relevant Year t-2 and shall be calculated in accordance with Part [C] of [ETC 20] for that year.
- TIRG<sub>t-2</sub> means the value of Transmission Investment for Renewable Generation in relevant year t-2, calculated in accordance with [Special Condition [ETC15]].

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## **[ETC10] Special Condition [x]. The Network Innovation Competition [NGET only]**

### **Introduction**

- 10.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (NIC) that will enable the Authority to determine the amount of the Network Innovation Competition Funding (NICF<sub>t</sub>) term that is to apply in Part B of [ETC20] (Restriction of Transmission Network Revenue) with respect to the funding of innovative low carbon or environmental projects.
- 10.2 The effect of the application of the NICF term in Part B of [ETC20] is to adjust the calculation of the licensee's [Maximum Revenue /Allowed Transmission Owner Revenue] in order to fund investment in innovation under the NIC established pursuant to this condition
- 10.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

### **Part A: Function of the Network Innovation Competition (NIC)**

- 10.4 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the licensee through its Use of System Charges pursuant to the NIC Funding Mechanism described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.
- 10.5 The amount of the NICF<sub>t</sub> term that is to be incorporated into the Maximum Transmission Network Revenue in accordance with the provisions of [ETC20] in respect of any Relevant Year comprises the total of the allowed revenues of the licensee recovered under the NIC Funding Mechanism in that year.
- 10.6 Accordingly, for the purposes of Part B of [ETC20], the amount of the NIC adjustment in any Relevant Year is determined in accordance with Parts B to D below and subject to the relevant provisions of the NIC Governance Document.

### **Part B: The NIC Funding Mechanism**

- 10.7 The NIC Funding Mechanism is the mechanism by which the licensee recovers the amount of authorised NIC Funding in any Relevant Year and apportions that amount between the licensee and other Transmission Licensees as appropriate.
- 10.8 NIC Funding is the total amount of funding authorised by the Authority for the licensee and other Transmission Licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.

### **Part C: The Funding Return Mechanism**

- 10.9 The Funding Return Mechanism provides for the recovery from the licensee and from other Transmission Licensees, in each case to such extent (if any) as may be relevant, of:
  - (a) Halted Project Revenues;
  - (b) Disallowed Expenditure; and

(c) Returned Royalty Income.

- 10.10 The Funding Return is the total amount (in respect of the licensee and other Transmission Licensees) of any amounts arising under paragraph 10.8.
- 10.11 Halted Project Revenues are revenues received (whether by the licensee or any other transmission licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.12 Disallowed Expenditure is revenue received (whether by the licensee or any other transmission licensee) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.13 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other transmission licensee), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 10.14 For the purposes of paragraph 10.13, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other transmission licensee) that have not been otherwise remunerated by Base Revenues as defined in [ETC 20], Excluded Services as defined in [ETC31 (Services treated as Excluded Services)], or the NIC Funding Mechanism.

#### **Part D: Determination of the amount of the NICF term**

- 10.15 The NICF term is the amount for Relevant Year  $t$  that is to be recovered by the licensee on behalf of other Transmission Licensees, as determined by the Authority under paragraph 10.16 in relation to:
- (a) the NIC Funding specified for that year; and
  - (b) any Funding Return specified for that year.
- 10.16 In each Relevant Year  $t$ , as provided for by the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and other Transmission Licensees, will specify in accordance with the appropriate provisions set out in the NIC Governance Document:
- (a) the value for  $NICF_t$  for the licensee (being the amount, if any, to be recovered by the licensee in order to contribute to its own and other Transmission Licensees' NIC Funding for that Relevant Year);
  - (b) the net amounts that are to be transferred between the licensee and other Transmission Licensees in order to ensure that each licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Relevant Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and
  - (c) the manner in which and the timescale over which the net amounts referred to in paragraph (b) are to be transferred.

10.17 The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 10.16.

**Part E: The NIC Governance Document**

10.18 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.

10.19 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
- (b) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);
- (c) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
- (d) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Transmission Licensees;
- (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);
- (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
- (g) any other matters relating to the regulation, governance, or administration of the NIC.

10.20 The licensee must comply with the NIC Governance Document as require its compliance as if it formed part of this condition.

**Part F: Procedure for issuing the NIC Governance Document**

10.21 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and other Transmission Licensees with a condition of similar effect to this condition in their license, must:

- (a) state that it proposes to issue the document, and specify the date on which it proposes that the document should take effect;
- (b) set out the text of the document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations with respect to the proposal may be made.

10.22 The Authority must consider any representations that are duly made and not withdrawn.

10.23 The requirements of paragraphs 10.21 and 10.22 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

10.24 In paragraph 10.21, “issuing the NIC Governance Document” includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

### **Part G: Interpretation**

10.25 For the purposes of this condition:

Disallowed Expenditure has the meaning given to that term in paragraph 10.12 of this condition.

Directly Attributable Costs has the meaning given to that term in paragraph 10.14 of this condition.

Eligible NIC Project means a project undertaken by the licensee or any other transmission licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.

Funding Return has the meaning given to that term in paragraph 10.10 of this condition.

Funding Return Mechanism has the meaning given to that term in paragraph 10.9 of this condition.

Halted Project Revenues has the meaning given to that term in paragraph 10.11 of this condition.

NIC Funding has the meaning given to that term in paragraph 10.8 of this condition.

NIC Funding Mechanism has the meaning given to that term in paragraph 10.7 of this condition.

Returned Royalty Income has the meaning given to that term in paragraph 10.13 of this condition.

NIC Governance Document means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F, relating generally to the NIC and including matters relating to the NIC Funding Mechanism.

Project Direction means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.

10.26 Expressions defined in paragraph 10.25 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions.



## **[ETC10] Special Condition [x]. The Network Innovation Competition [SPTL and SHETL]**

### **Introduction**

- 10.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (NIC) with respect to the funding of innovative low carbon or environmental projects carried out by the licensee.
- 10.2 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

### **Part A: Function of the Network Innovation Competition (NIC)**

- 10.3 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of payments received from the System Operator in accordance with the determination process described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.

### **Part B: The NIC Funding Mechanism**

- 10.4 The NIC Funding Mechanism is the mechanism by which the licensee receives the amount of authorised NIC Funding in any Relevant Year from the System Operator, less any Funding Return as described in Part B.

### **Part C: The Funding Return Mechanism**

- 10.5 The Funding Return Mechanism relates to payments to be made by the licensee to the System Operator, in each case to such extent (if any) as may be relevant, of:
- (a) Halted Project Revenues;
  - (b) Disallowed Expenditure; and
  - (c) Returned Royalty Income.
- 10.6 The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 10.5.
- 10.7 Halted Project Revenues are any revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.8 Disallowed Expenditure is any revenue received by the licensee from the System Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.

- 10.10 For the purposes of paragraph 10.9, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated by Base Revenues as defined in ETC 20, Excluded Services, or the NIC Funding Mechanism.
- 10.11 In each Relevant Year *t*, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:
- (a) the amount of any Funding Return that the licensee must pay to the System Operator; and
  - (b) the manner in which and the timescale over which that amount is to be so paid.
- 10.12 The licensee must comply with any direction that is issued by the Authority under paragraph 10.11.

### **Part C: Determination of the amount of the NIC term**

- 10.13 The NIC term is the net amount of NIC Funding less any Funding Return for the Relevant Year *t* that is to be paid to the licensee by the System Operator, or vice versa, in compliance with the determination made for that purpose in a direction issued by the Authority pursuant to the provisions of Part D of [ETC10] (The Network Innovation Competition) in the Transmission Licence held by the System Operator (“the NIC Funding Mechanism”).
- 10.14 The NIC Funding to which paragraph 10.4 refers is the proportion (if any) of total NIC Funding raised by the System Operator from its Use of System Charges in accordance with the NIC Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible NIC Projects, as adjusted by the amount of any Funding Return (as to which, see Part C below).
- 10.15 In each Relevant Year *t*, as provided for by the NIC Governance Document and in accordance with the appropriate provisions of the System Operator’s Transmission Licence the Authority will calculate and then, by direction given to the licensee and other Transmission Licensees, will specify, in accordance with the appropriate provisions set out in the NIC Governance Document:
- (a) the net amount of the NIC term (whether negative or positive);
  - (b) how the amount of that term has been calculated, taking account of any Funding Return; and
  - (c) the manner in which and the timescale over which the System Operator is required to transfer that amount to the licensee or vice versa.

### **Part D: The NIC Governance Document**

- 10.16 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.
- 10.17 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
- (a) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);
- (b) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
- (c) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Transmission Licensees;
- (d) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);
- (e) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
- (f) any other matters relating to the regulation, governance, or administration of the NIC.

10.18 The licensee must comply with the NIC Governance Document as require its compliance as if it formed part of this condition.

**Part E: Procedure for issuing the NIC Governance Document**

10.19 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and other Transmission Licensees with a condition of similar effect to this condition in their license, must:

- (a) state that it proposes to issue the document, and specify the date on which it proposes that the document should take effect;
- (b) set out the text of the document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations with respect to the proposal may be made.

10.20 The Authority must consider any representations that are duly made.

10.21 The requirements of paragraphs 10.19 and 10.20 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

10.22 In paragraph 10.19, "issuing the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

**Part F: Interpretation**

10.23 For the purposes of this condition:

Disallowed Expenditure	has the meaning given to that term in paragraph 10.8 of this condition.
Directly Attributable Costs	has the meaning given to that term in paragraph 10.10 of this condition.
Eligible NIC Project	means a project undertaken by the licensee or any other transmission licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
Funding Return	has the meaning given to that term in paragraph 10.6 of this condition.
Funding Return Mechanism	has the meaning given to that term in paragraph 10.5 of this condition.
Halted Project Revenues	has the meaning given to that term in paragraph 10.7 of this condition.
NIC Funding	has the meaning given to that term in paragraph 10.14 of this condition.
NIC Funding Mechanism	Refer refers to the arrangements (pursuant to [ETC10] of its transmission licence) for the recovery by the System Operator through its Use of System Charges of the amount of total authorised NIC Funding in any Relevant Year and the apportionment of that amount between the System Operator, the licensee, and other Transmission Licensees.
Returned Royalty Income	has the meaning given to that term in paragraph 10.9 of this condition.
NIC Governance Document	means the document issued by the Authority under Part D of this condition, subject to the requirements of Part E, relating generally to the NIC and including matters relating to the operation of the NIC Funding Mechanism.
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.

10.24 Expressions defined in paragraph 10.23 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions.

## **[ETC11] Special Condition [x]. The Network Innovation Allowance [NGET/SPTL]**

### **Introduction**

- XX.1 This condition establishes arrangements to be known as the Network Innovation Allowance (NIA) for the purpose of calculating the amount of the NIA term that applies in Part B of [ETC20 (Restriction of Transmission Network Revenue)] with respect to the funding of innovative projects carried out by the licensee.
- XX.2 The effect of the application of the NIA term in Part B of [ETC20] is to adjust the calculation of the licensee's [Allowed Transmission Owner Revenue / Maximum Revenue] (whether upwards or downwards) in order to fund investment in innovation under the NIA established pursuant to this condition.
- XX.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the NIA .

### **Part A: Calculation of the NIA term**

- XX.4 For the purposes of Part B of ETC20, the NIA adjustment for the Relevant Year t is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$NIA_t = ANIA_t - NIAR_t$$

For the purposes of the Principal Formula:

- $NIA_t$  means the total allowed adjustment in Relevant Year t.
- $ANIA_t$  means the total Allowable NIA Expenditure in Relevant Year t and is derived in accordance with the appropriate formula set out in either Part B below.
- $NIAR_t$  means an amount recovered by the licensee in relation to the Relevant Year t or a previous Relevant Year under the NIA which the Authority has determined, in accordance with provisions set out in paragraph 11.10 of this condition and the NIA Governance Document, to be unrecoverable (see Part C below).

- XX.5 Expenditure incurred by the licensee may only be recovered under the NIA if it is Allowable NIA Expenditure.

### **Part B: Calculation of Allowable NIA Expenditure (ANIA)**

- XX.6 For the purposes of the Principal Formula the amount of ANIA is derived from the following formula:

$$ANIA_t = PTRA \times \min((ENIA_t + BPC_t), (NIAV \times BR_t))$$

where:

- $PTRA$  is the pass-through factor and has the value of 0.9.

ENIA <sub>t</sub>	means the Eligible NIA Expenditure for Relevant Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with ETC 74 (Regulatory Instructions and Guidance).
BPC <sub>t</sub>	means the Eligible NIC Bid Preparation Costs for the Relevant Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with ETC 74 (provided that, where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot be more than £175,000 in total or 5% of the amount applied for by the group under the Network Innovation Competition, as defined in ETC 10 (the Network Innovation Competition) whichever is less in the Relevant Year t insofar as the Authority consents otherwise).
NIAV	means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition).
BR <sub>t</sub>	means Base Transmission Network Activity Revenue in Relevant Year t, and is derived in accordance with Part B of [ETC20].

XX.7 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE) that qualifies as Eligible NIA Expenditure in the Relevant Year t must not exceed the amount derived by the following formula:

$$\text{NIAIE}_t \leq Z \times \text{ENIA}_t$$

where:

NIAIE <sub>t</sub>	is the Eligible NIA Internal Expenditure that qualifies as Eligible NIA Expenditure for the Relevant Year t; and
Z	Z has the value of 0.25, except insofar as the Authority consents otherwise.

### **Part C: Treatment of Unrecoverable Expenditure**

XX.8 In any Relevant Year t, the Authority may set, by direction given to the licensee, an amount for NIAR<sub>t</sub> that will reduce the licensee's NIA revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

### **Part D: The NIA Governance Document**

XX.9 The Authority will issue, and may from time to time revise, a document to be known as the NIA Governance Document, for purposes connected with the regulation, governance and administration of the NIA under this condition.

XX.10 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria, which projects must meet, which are applied by the licensee before Eligible NIA Projects can be started;
- (b) the information that is to be published by the licensee before Eligible NIA Projects can be started;
- (c) the circumstances in which the licensee will require permission from the Authority before beginning an Eligible NIA Project;
- (d) the processes and procedures that will be in place for the assessment and approval (where necessary) of such projects described in 11.12(c);
- (e) arrangements for ensuring that relevant learning from Eligible NIA Projects can be captured and disseminated by the licensee to other licensees;
- (f) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);
- (g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and
- (h) any other matters relating to the regulation, governance or administration of the NIA.

XX.11 The licensee must comply with such provisions of the NIA Governance Document as require its compliance as if the NIA Governance Document were part of this condition.

#### **Part E: Procedure for issuing the NIA Governance Document**

XX.12 Before issuing the NIA Governance Document under this condition, the Authority, by Notice given to the licensee and all other licensees with a condition of similar effect to this condition in their license, must:

- (a) state that it proposes to issue the NIA Governance Document, and specify the date on which it proposes that this should take effect;
- (b) set out the text of the NIA Governance Document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposed NIA Governance Document may be made.

XX.13 The Authority must consider any representations or objections that are duly made and not withdrawn.

XX.14 The requirements of paragraphs 11.14 and 11.15 may be satisfied by action taken by the Authority before, as well as by action taken after, the commencement of this condition.

XX.15 In paragraph 11.14, "issuing the NIA Governance Document" includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

#### **Part F: Interpretation**

XX.16 For the purposes of this condition:

Allowable NIA Expenditure	has the meaning given to that term in either Part B of this condition.
Electricity Transmission Group	means any group of Transmission Owners in which the licensee and every other Transmission Owner within the group are Affiliates.
Eligible NIA Expenditure	means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects and Eligible NIC Bid Preparation Costs and forms part of Allowable NIA Expenditure as set out in Part B of this condition.
Eligible NIA Internal Expenditure	means the amount of Eligible NIA Expenditure spent or accrued on the internal resources of the licensee.
Eligible NIA Projects	means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.
Eligible NIC Bid Preparation Costs	means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition as defined in ETC10 (the Network Innovation Competition) that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.
Network Innovation Allowance	has the meaning given to that term in the Introduction this condition.
NIA Governance Document	means the document issued by the Authority under Part D of this condition, subject to the requirements of Part E, relating generally to the establishment and operation of the NIA and including matters relating to the calculation of the Eligible NIA expenditure.
NIA Percentage	means the percentage of allowed revenue licensees may use for NIA projects set out in Appendix 1 of this condition (which has effect as part of this condition).
Unrecoverable Expenditure	means expenditure on a NIA project the Authority has determined does not satisfy the requirements of the NIA Governance Document.



**APPENDIX 1: NIA Percentage**

**(see the NIAV term under Part B of this condition)**

Licensee	NIA Percentage
National Grid Electricity Transmission plc	xxx
SP Transmission Limited	xxx

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# [ETC 11] Special Condition [x]. The Network Innovation Allowance [SHETL]

## Introduction

- XX.1 This condition establishes arrangements to be known as the Network Innovation Allowance (NIA) for the purpose of calculating the amount of the NIA term that applies in Part B of [ETC20 (Restriction of Transmission Network Revenue)] with respect to the funding of innovative projects carried out by the licensee.
- XX.2 The effect of the application of the NIA term in Part B of [ETC20] is to adjust the calculation of the licensee's Allowed Transmission Owner Revenue (whether upwards or downwards) in order to fund investment in innovation under the NIA established pursuant to this condition.
- XX.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the NIA.

## Part A: Calculation of the NIA term

- XX.4 For the purposes of Part B of ETC20, the NIA adjustment for the Relevant Year  $t$  is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$NIA_t = ANIA_t - NIAR_t$$

where:

$NIA_t$  means the total allowed adjustment in Relevant Year  $t$ ;

$ANIA_t$  means the total Allowable NIA Expenditure in Relevant Year  $t$  and is derived in accordance with the appropriate formula set out in either Part B below; and

$NIAR_t$  means an amount recovered by the licensee in relation to the Relevant Year  $t$  or a previous Relevant Year under the NIA which the Authority has determined, in accordance with provisions set out in paragraph 11.10 of this condition and the NIA Governance Document, to be unrecoverable (see Part C below).

- XX.5 Expenditure incurred by the licensee may only be recovered under the NIA if it is Allowable NIA Expenditure.

## Part B: Calculation of Allowable NIA Expenditure (ANIA)

- XX.6 For the purposes of the Principal Formula ANIA is derived (subject to paragraph 11.08) from the following formula:

$$ANIA_t = PTR_A \times \min((ENIA_t + BPC_t), (NIA_V \times AFR))$$

where:

$PTR_A$  is the pass-through factor and has the value of 0.9.

ENIA <sub>t</sub>	means the Eligible NIA Expenditure for Relevant Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with ETC 74 (Regulatory Instructions and Guidance).
BPC <sub>t</sub>	means the Eligible NIC Bid Preparation Costs for the Relevant Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with ETC 74 (provided that, where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot be more than £175,000 in total or 5% of the amount applied for by the group under the Network Innovation Competition, as defined in ETC 10 (the Network Innovation Competition) whichever is less in the Relevant Year t insofar as the Authority consents otherwise).
NIAV	means the licensee's NIA Percentage, and has the value attributed to the licensee in Appendix 1 (which has effect as part of this condition).
AFR	means Average Annual Forecast Revenue and has the value attributed to the licensee in Appendix 2 (which has effect as part of this condition).

XX.7 Notwithstanding paragraph 11.07, the licensee must ensure that:

$$\sum_{t=1}^8 ANIA_t \leq \left( PTRA \times NIAV \times \sum_{t=1}^8 BR_t \right)$$

where:

$$\sum_{t=1}^8 ANIA_t$$

is the sum of the licensee's Allowable NIA Expenditure for each of the Relevant Years one to eight (with Relevant Year one beginning on 1 April 2013).

$$\sum_{t=1}^8 BR_t$$

is the sum of the amount recovered by the licensee for Base Transmission Network Activity Revenue for each of the Relevant Years one to eight (with Relevant Year one beginning on 1 April 2013) and is derived in accordance with Part B of [ETC20].

XX.8 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE<sub>t</sub>) that qualifies as eligible NIA Expenditure in the Relevant Year t must not exceed the amount determined by the following formula:

$$NIAIE_t \leq Z \times ENIA_t$$

where:

NIAIE<sub>t</sub> is the Eligible NIA Internal Expenditure that qualifies as Eligible NIA Expenditure for the Relevant Year t; and

Z

Z has the value of 0.15, except insofar as the Authority consents otherwise.

### **Part C: Treatment of Unrecoverable Expenditure**

XX.9 In any Relevant Year  $t$ , the Authority may set, by direction given to the licensee, an amount for NIAR $t$  that will reduce the licensee's NIA revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

### **Part D: The NIA Governance Document**

XX.10 The Authority will issue, and may from time to time revise, a document to be known as the NIA Governance Document, for purposes connected with the regulation, governance and administration of the NIA under this condition.

XX.11 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria, which projects must meet, which are applied by the licensee before Eligible NIA Projects can be started;
- (b) the information that is to be published by the licensee before Eligible NIA Projects can be started;
- (c) the circumstances in which the licensee will require permission from the Authority before beginning an Eligible NIA Project;
- (d) the processes and procedures that will be in place for the assessment and approval (where necessary) of such projects described in 11.12(c);
- (e) arrangements for ensuring that relevant learning from Eligible NIA Projects can be captured and disseminated by the licensee to other licensees;
- (f) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);
- (g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and
- (h) any other matters relating to the regulation, governance or administration of the NIA.

XX.12 The licensee must comply with such provisions of the NIA Governance Document as require its compliance as if the NIA Governance Document were part of this condition.

### **Part E: Procedure for issuing the NIA Governance Document**

XX.13 Before issuing the NIA Governance Document under this condition, the Authority, by Notice given to the licensee and all other licensees with a condition of similar effect to this condition in their license, must:

- (a) state that it proposes to issue the NIA Governance Document, and specify the date on which it proposes that this should take effect;

- (b) set out the text of the NIA Governance Document and the Authority’s reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposed NIA Governance Document may be made.

XX.14 The Authority must consider any representations that are duly made and not withdrawn.

XX.15 The requirements of paragraphs 11.13 and 11.14 may be satisfied by action taken by the Authority before, as well as by action taken after, the commencement of this condition.

XX.16 In paragraph 11.13, “issuing the NIA Governance Document” includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

**Part F: Interpretation**

XX.17 For the purposes of this condition:

Allowable NIA Expenditure	has the meaning given to that term in either Part B of this condition.
Electricity Transmission Group	means any group of Transmission Owners in which the licensee and every other Transmission Owner within the group are Affiliates.
Eligible NIA Expenditure	means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects and Eligible NIC Bid Preparation Costs and forms part of Allowable NIA Expenditure as set out in Part B of this condition.
Eligible NIA Projects	means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.
Eligible NIA Internal Expenditure	means the amount of Eligible NIA Expenditure spent or accrued on the internal resources of the licensee.
Eligible NIC Bid Preparation Costs	means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition as defined in ETC10 (the Network Innovation Competition) that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.
Network Innovation Allowance	has the meaning given to that term in the Introduction this condition.
NIA Governance Document	means the document issued by the Authority under Part D of this condition, subject to the requirements of Part E, relating generally to the establishment and operation of the NIA and including matters relating to the calculation of the Eligible NIA

expenditure.

NIA Percentage	means the percentage of allowed revenue licensees may use for NIA projects set out in Appendix 1 of this condition (which has effect as part of this condition).
Unrecoverable Expenditure	means expenditure on a NIA project the Authority has determined does not satisfy the requirements of the NIA Governance Document.

#### **APPENDIX 1: NIA Percentage**

**(see the NIAV term under Part B of this condition)**

Licensee	NIA Percentage
Scottish Hydro Electric Transmission Limited	xxx

#### **APPENDIX 2: Annual Average Forecast Revenue**

**(see the AFR term under Part B of this condition)**

Licensee	£m
Scottish Hydro Electric Transmission Limited	xxx

## [ETC 15] Special Condition [x]. Transmission Investment for Renewable Generation [SHETL]

### Part A – TIRG Revenue allowance

XX.1 For the purposes of [paragraph 3] of special condition [ETC 20] (Restriction of Transmission Network Revenue) for each TIRG relevant year  $t$ ,  $TIRG_t$  shall be calculated in accordance with the following formula:

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

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

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

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

where:

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

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

$FTIRG_t^i$  means the annual construction revenue allowance for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  and shall be calculated in accordance with paragraph 5.

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

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

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

$$IPTIRG_t^i = CFTIRG_t^i \times RPIF_t$$

where:

$CFTIRG_t^i$  means the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to

$t=-1$  (where  $p \leq -1$ ) and shall have the value specified in Schedule C for each TIRG relevant year  $t$ , and where no value is specified in Schedule C for a TIRG relevant year  $t$  shall have the value of zero.

$RPIF_t$  shall have the same meaning as given in paragraph 3 of special condition [ETC 20].

XX.4 For the purposes of this paragraph, a TIRG income adjusting event:

- (a) means an event or circumstance occurring in the preconstruction period that the Authority is satisfied causes costs and/or expenses to be incurred or saved in relation to the transmission investment project  $i$ , where the Authority is satisfied that those costs and/or expenses:
  - (i) have resulted in, or are expected to result in, a material increase or decrease to the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) ( $CFTIRG_t$ );
  - (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 cannot otherwise be recovered under the TIRG revenue allowance provided by this condition;



- (v) the amount of any  $\text{TIRGIIncAd}_t^i$  income adjustment allowance proposed as a consequence of that event and how this  $\text{TIRGIIncAd}_t^i$  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  $\text{TIRGIIncAd}_t^i$  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  $\text{TIRGIIncAd}_t^i$  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  $\text{TIRGIIncAd}_t^i$  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  $\text{TIRGIIncAd}_t^i$  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  $\text{TIRGIIncAd}_t^i$  shall be the  $\text{TIRGIIncAd}_t^i$  income adjustment allowance for the transmission investment project  $i$  determined by the Authority under subparagraph (d), and where the Authority has not made a determination under subparagraph (d) shall be zero.
- (i) Where the licensee notifies the Authority of a TIRG income adjusting event under subparagraph (b), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

XX.5 For the purposes of paragraph 2, the term  $\text{FTIRGI}_t^i$  shall be calculated in accordance with the following formula:

$$\text{FTIRG}_t^i = \text{CCTIRG} \times (\text{FTIRGC}_t^i + \text{AFFTIRG}_t^i) + (\text{FTIRGDepn}_t^i + \text{AFFTIRGDepn}_t^i) \times \text{RPIF}_t$$

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<sup>*i*</sup><sub>*t*</sub>** 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:

- (i) where the licensee has not been granted planning consent to build the transmission investment project *i*, FTIRGC<sup>*i*</sup><sub>*t*</sub> shall be zero; and
- (ii) where the licensee has been granted planning consent to build the transmission investment project *i*, FTIRGC<sup>*i*</sup><sub>*t*</sub> shall have the value specified in Schedule C for each TIRG relevant year *t*, and where no value is specified in Schedule C for a TIRG relevant year *t* shall have the value of zero.

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

**RPIF<sub>*t*</sub>** shall have the same meaning as given in paragraph 3 of special condition [ETC 20].

**FTIRGDepn<sup>*i*</sup><sub>*t*</sub>** 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:

- (i) where the licensee has not been granted planning consent to build the transmission investment project *i*, FTIRGDepn<sup>*i*</sup><sub>*t*</sub> shall be zero; and
- (ii) where the licensee has been granted planning consent to build the transmission investment project *i*, FTIRGDepn<sup>*i*</sup><sub>*t*</sub> shall have the value specified in schedule C for each TIRG relevant year *t*, and where no value is specified in Schedule C for a TIRG relevant year *t* shall have the value of zero.

**AFFTIRGDepn<sup>*i*</sup><sub>*t*</sub>** means one or more adjustments to the depreciation value for the transmission investment project *i* for the TIRG relevant years *t*=0 to *t*=*n* (FTIRGDepn<sub>*t*</sub><sup>*i*</sup>) as a result of a TIRG asset value adjusting

event and each adjustment shall be determined by the Authority (in 2009/10 prices) in accordance with paragraph 6.

XX.6

- (a) For the purpose of this paragraph, a TIRG asset value adjusting event means relevant additional preconstruction works or a relevant amendment to the scope of construction works that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the transmission investment project  $i$ , where the Authority is satisfied that those costs and expenses:
- (i) are expected to result in a material increase or decrease to the average asset value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t^i$ );
  - (ii) are expected to be efficiently incurred or saved; and
  - (iii) cannot otherwise be recovered under the TIRG revenue allowance provided by this condition.
- (b) For the purposes of subparagraph (a)–
- (i) “relevant additional preconstruction works” means preconstruction works expected to be carried out by the licensee during the TIRG relevant years  $t=0$  to  $t=n$  as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project  $i$  (including but not limited to planning consent); and
  - (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that:
    - a. 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
    - b. is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project  $i$  that are identified by the licensee during preconstruction work.
- (c) Where the licensee considers, and can provide supporting evidence that, a TIRG asset value adjusting event has occurred in relation to the transmission investment project  $i$ , then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the additional preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved

by the additional preconstruction works / amended scope of construction works (as appropriate) and shall give particulars of:

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

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

XX.7 For the purpose of paragraph 2, the term  $\text{ETIRG}_t^i$  shall be calculated in accordance with the following formula:

$$\text{ETIRG}_t^i = \text{CCTIRG} \times (\text{ETIRGC}_t^i + \text{SAFRTIRG}^i) + (\text{Dep}_t^i \times \text{SAFRTIRG}^i) \times \text{RPIF}_t$$

where:

$\text{CCTIRG}$  shall have the meaning given in paragraph 5.

$\text{ETIRGC}_t^i$  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 Schedule C for each TIRG relevant year t, and where no value is specified in Schedule C for a TIRG relevant year t shall have the value of zero.

SAFRTIRG<sup>i</sup> means an adjustment factor to the average asset value for the transmission investment project i for each of the TIRG relevant years t=n+1 to t=n+5 (ETIRGCT) 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:

$$\text{SAFRTIRG}^i = \frac{\text{SAFTIRG}^i}{\text{ETIRGORAV}^i}$$

where:

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

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

RPIF<sub>t</sub> shall have the same meaning as in paragraph 3 of special condition [ETC 20].

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

## XX.8

- (a) The Authority shall determine (in consultation with the licensee and such other persons it considers necessary) the value of the term SAFTIRG<sup>i</sup> with respect to the transmission investment project i by TIRG relevant year t=n+1 where the Authority has received a post construction expenditure report and a post construction technical report in respect of the transmission investment project i in accordance with paragraph 10.
- (b) Where the Authority makes a determination under this paragraph, the Authority shall have regard to the following:
  - (i) whether the final aggregate transmission investment expenditure set out in the post construction expenditure report has been efficiently incurred;
  - (ii) the extent to which the licensee has complied with the output measures specified in Schedule C for the transmission investment project i as set out in the post construction technical report;
  - (iii) whether an adjustment has been made to the average asset value for the transmission investment project i for the TIRG relevant years t=0 to t=n under paragraph 6 (AFFTIRG<sup>i</sup> adjustment);

- (iv) whether an adjustment has been made to the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  under paragraph 6 (AFFTIRGDepn $_t^i$  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.

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

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

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

- (i) a post construction expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission investment project i, assessed against the average asset value for the transmission investment project i for TIRG relevant years  $t=0$  to  $t=n$  (FTIRGC<sub>i</sub>); and
- (ii) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Schedule C.

XX.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.

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

- (a) For the purpose of this paragraph, an output measures adjusting event means a relevant amendment to the scope of the construction works (as defined in paragraph (6)(b)(ii)) of this condition which the Authority is satisfied is expected to cause a material change in the output measures specified in schedule C for the transmission investment project i.
- (b) 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).
- (c) 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.
- (d) 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.
- (e) 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.
- (f) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

**SCHEDULE C: SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION ETC 15  
(Transmission Investment for Renewable Generation)**

**Beaulieu-Denny**

**Pre construction, contingency and construction costs**

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

**Post construction revenue**

<b>Project costs (£ 000) 2009/10 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV	256,214				

$(ETIRGORAV^i)$					
$Dep^i$	12,811	12,811	12,811	12,811	12,811
Average asset value during efficiency period ( $ETIRGC_t^i$ )	249,809	236,999	224,188	211,377	198,566

### Sloy

#### Pre construction, contingency and construction costs

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

#### Post construction revenue

<b>Project costs (£ 000) 2009/10 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV	7,690				

$(ETIRGORAV^i)$					
$Dep^i$	385	385	393	393	393
Average asset value during efficiency period ( $ETIRGC_t^i$ )	7,498	7,112	6,874	6,480	6,088

DRAFT

## [ETC 15] Special Condition [x].Transmission Investment for Renewable Generation [SPTL]

### Part A – TIRG Revenue allowance

XX.1 For the purposes of paragraph 3 of special condition ETC 20 (Restriction of transmission charges: revenue from transmission owner services) for each TIRG relevant year  $t$ ,  $TIRG_t$  shall be calculated in accordance with the following formula:

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

where

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

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

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

where:

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

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

$TIRG_t^i$  means the annual construction revenue allowance for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  and shall be calculated in accordance with paragraph 5.

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

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

XX.3 For the purposes of paragraph 2, the term  $\text{IPTIRG}_t^i$  shall be calculated in accordance with the following formula:

$$\text{IPTIRG}_t^i = \text{CFTIRG}_t^i \times \text{RPIF}_t$$

where:

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

$\text{RPIF}_t$  shall have the same meaning as given in paragraph 3 of special condition ETC 20.

XX.4

- (a) For the purposes of this paragraph, a TIRG income adjusting event means an event or circumstance occurring in the preconstruction period that the Authority is satisfied causes costs and/or expenses to be incurred or saved in relation to the transmission investment project  $i$ , where the Authority is satisfied that those costs and/or expenses:
- (i) have resulted in, or are expected to result in, a material increase or decrease to the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) ( $\text{CFTIRG}_t$ );
  - (ii) have been, or are expected to be, efficiently incurred or saved; and
  - (iii) cannot 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  $\text{TIRG}_t$  income adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a  $\text{TIRG}_t$  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  $p \leq -1$ ) ( $\text{CFTIRG}_t$ ) 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 cannot otherwise be recovered under the TIRG revenue allowance provided by this condition;
  - (v) the amount of any  $\text{TIRGIncAd}^i_t$  income adjustment allowance proposed as a consequence of that event and how this  $\text{TIRGIncAd}^i_t$  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  $\text{TIRGIncAd}^i_t$  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  $\text{TIRGIncAd}^i_t$  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  $\text{TIRGIncAd}^i_t$  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  $\text{TIRGIncAd}^i_t$  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  $\text{TIRGIncAd}^i_t$  shall be the  $\text{TIRGIncAd}^i_t$  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.

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

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

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%).

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

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

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

**$RPIF_t$**  shall have the same meaning as given in paragraph 3 of special condition ETC 20.

**$FTIRGDepn^i$**  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:

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

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

## XX.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<sup>i</sup>);
  - (ii) are expected to be efficiently incurred or saved; and
  - (iii) cannot otherwise be recovered under the TIRG revenue allowance provided by this condition.
- (b) For the purposes of subparagraph (a)–
- (i) “relevant additional preconstruction works” means preconstruction works expected to be carried out by the licensee during the TIRG relevant years t=0 to t=n as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent); and
  - (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that:
    - a. 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
    - b. is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project i that are identified by the licensee during preconstruction work.
- (c) Where the licensee considers, and can provide supporting evidence that, a TIRG asset value adjusting event has occurred in relation to the transmission investment project i, then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year t=0 (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the additional



preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works / amended scope of construction works (as appropriate) and shall give particulars of:

- (i) the TIRG asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG asset value adjusting event;
  - (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
  - (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project  $i$  for TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
  - (iv) the reasons why the licensee considers that the costs and/or expenses cannot otherwise be recovered under the TIRG revenue allowance provided by this condition;
  - (v) the amount of any  $AFFTIRG_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRG_t^i$  adjustment has been calculated;
  - (vi) the amount of any increase or decrease in the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGDepn_t^i$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
  - (vii) the amount of any  $AFFTIRGDepn_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRGDepn_t^i$  adjustment has been calculated; and
  - (viii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG asset value adjusting event has occurred in respect of the transmission investment project  $i$ ;
  - (ii) where the Authority determines that a TIRG asset value adjusting event has occurred in respect of the transmission investment project  $i$ , whether the transmission investment project  $i$  will remain economically efficient as a consequence of that TIRG asset value adjusting event;
  - (iii) a  $AFFTIRG$  adjustment in respect of the transmission investment project  $i$ ; and
  - (iv) a  $AFFTIRGDepn$  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  $AFFTIRG^i_t$  and  $AFFTIRGDepn^i_t$  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  $AFFTIRG^i_t$  and  $AFFTIRGDepn^i_t$  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  $AFFTIRG^i_t$  and  $AFFTIRGDepn^i_t$  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  $AFFTIRG^i_t$  and  $AFFTIRGDepn^i_t$  shall be the  $AFFTIRG^i_t$  and  $AFFTIRGDepn^i_t$  adjustments for the transmission investment project  $i$  determined by the Authority under subparagraph (e), and where the Authority has not made a determination under subparagraph (e) shall be zero.
- (j) Where the licensee notifies the Authority of a TIRG asset value adjusting event under subparagraph (c), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

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

$$ETIRG^i_t = CCTIRG \times (ETIRGC^i_t + SAFRTIRG^i) + (Dep^i_t \times SAFRTIRG^i) \times RPIF_t$$

where:

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

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

SAFRTIRG<sup>i</sup> means an adjustment factor to the average asset value for the transmission investment project i for each of the TIRG relevant years t=n+1 to t=n+5 (ETIRGCt) 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:

$$\text{SAFRTIRG}^i = \frac{\text{SAFTIRG}^i}{\text{ETIRGORAV}^i}$$

where:

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

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

RPIF<sub>t</sub> shall have the same meaning as in paragraph 3 of special condition ETC 20.

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

## XX.8

- (a) The Authority shall determine (in consultation with the licensee and such other persons it considers necessary) the value of the term SAFTIRG<sup>i</sup> with respect to the transmission investment project i by TIRG relevant year t=n+1 where the Authority has received a post construction expenditure report and a post construction technical report in respect of the transmission investment project i in accordance with paragraph 10.
- (b) Where the Authority makes a determination under this paragraph, the Authority shall have regard to the following:
  - (i) whether the final aggregate transmission investment expenditure set out in the post construction expenditure report has been efficiently incurred;
  - (ii) the extent to which the licensee has complied with the output measures specified in Schedule C for the transmission investment project i as set out in the post construction technical report;
  - (iii) whether an adjustment has been made to the average asset value for the transmission investment project i for the TIRG relevant years t=0 to t=n under paragraph 6 (AFFTIRG<sup>i</sup> adjustment);

- (iv) whether an adjustment has been made to the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  under paragraph 6 (AFFTIRGDepn <sup>$i$</sup>  adjustment); and
  - (v) any other information the Authority considers to be relevant to the determination.
- (c) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the SAFTIRG <sup>$i$</sup>  opening asset value for the transmission investment project  $i$  and the reasons for the determination.
  - (d) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

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

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

- XX.10 For each transmission investment project  $i$  specified in Schedule C, the licensee shall provide the Authority with the following:
- (a) during or prior to TIRG relevant year  $t=0$ , a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:
    - (i) the TIRG $t=0$  output measures assessed against the forecast output measures in Schedule C for the transmission investment project  $i$ ; and
    - (ii) the TIRG $t=n$  forecast output measures assessed against the forecast output measures in Schedule C for the transmission investment project  $i$ ;
  - (b) not later than three months after the end of each of the TIRG relevant years  $t=p$  to  $t=0$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a preconstruction expenditure report, accompanied by an auditor's statement, setting out an itemised report of the preconstruction expenditure incurred for the transmission investment project  $i$  during that TIRG relevant year  $t$ ;
  - (c) not later than three months after the end of each of the TIRG relevant years  $t=1$  to  $t=n$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a construction expenditure report accompanied by an auditor's statement, setting out an itemised report of the construction expenditure incurred for the transmission investment project  $i$  during that TIRG relevant year  $t$ ; and
  - (d) not later than three months after the end of TIRG relevant year  $t=n$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):

- (i) a post construction expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission investment project i, assessed against the average asset value for the transmission investment project i for TIRG relevant years  $t=0$  to  $t=n$  (FTIRG<sub>Ct</sub>); and
- (ii) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Schedule C.

XX.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.

XX.12

- (a) The output measures specified in Schedule C may be amended in accordance with this paragraph.
- (b) For the purpose of this paragraph, an output measures adjusting event means a relevant amendment to the scope of the construction works (as defined in paragraph (6)(b)(ii)) of this condition which the Authority is satisfied is expected to cause a material change in the output measures specified in schedule C for the transmission investment project i.
- (c) Where the licensee considers, and can provide supporting evidence that, an output measures adjusting event has occurred in relation to the transmission investment project i, then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and shall give particulars of:
  - (i) the output measures adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an output measures adjusting event;
- (ii) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and
- (iii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
  - (i) whether an output measures adjusting event has occurred in respect of the transmission investment project i; and

- (ii) where the Authority determines that 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.

**SCHEDULE C: SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION ETC  
15 (Transmission Investment for Renewable Generation)**

**Beaulieu-Denny**

**Pre construction, contingency and construction costs**

<b>Project costs (£ 000) 2009/10 prices</b>	<b>t=p</b>	<b>t=-1</b>	<b>t=0</b>	<b>t=1</b>	<b>t=2</b>	<b>t=n</b>
Forecast pre-construction and contingency costs (CFTIRG <sup>i</sup> )	3,326	1,842	n/a	n/a	n/a	n/a
Forecast Construction Costs			20,993	22,450	12,729	2,523
Average asset value during construction period (FTIRGC <sup>i</sup> )	n/a	n/a	10,496	31,692	48,564	53,652
Depreciation during Construction (FTIRGDepr <sup>i</sup> )			0	1,050	2,219	2,855

**Post construction revenue**

<b>Project costs (£ 000) 2009/10 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>

Opening RAV (ETIRGORAV <sup>i</sup> )	53,486				
Dep <sup>i</sup>	2,674	2,674	2,674	2,674	2,674
Average asset value during efficiency period (ETIRGC <sup>i</sup> )	52,149	49,474	46,800	44,126	41,452

### B5 Boundary

#### Pre construction, contingency and construction costs

<b>Project costs</b> <b>(£ 000)</b> <b>2009/10 prices</b>	<b>t=p</b>	<b>t=-1</b>	<b>t=0</b>	<b>t=1</b>	<b>t=n</b>
Forecast pre-construction and contingency costs (CFTIRG <sup>i</sup> )	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs			3,511	6,987	1,671
Average asset value during construction period (FTIRGC <sup>i</sup> )	n/a	n/a	1,756	6,957	11,355
Depreciation during Construction (FTIRGDepr <sup>i</sup> )				178	549

#### Post construction revenue

<b>Project costs</b> <b>(£ 000)</b> <b>2009/10 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>

Opening RAV (ETIRGORAV <sup>i</sup> )	11,209				
Dep <sup>i</sup>	560	560	572	572	572
Average asset value during efficiency period (ETIRGC <sup>i</sup> )	10,928	10,368	10,019	9,447	8,874

### South west Scotland reinforcement

#### Pre construction, contingency and construction costs

<b>Project costs</b> <b>(£ 000)</b> <b>2009/10 prices</b>	<b>t=p</b>	<b>t=-1</b>	<b>t=0</b>	<b>t=1</b>	<b>t=n</b>
Forecast pre-construction and contingency costs (CFTIRG <sup>i</sup> )	1,950	1,382	n/a	n/a	n/a
Forecast Construction Costs			229	26,147	16,170
Average asset value during construction period (FTIRGC <sup>i</sup> )			115	13,297	33,790
Depreciation during Construction (FTIRGDepr <sup>i</sup> )			0	11	1,319

#### Post construction revenue

<b>Project costs</b> <b>(£ 000)</b> <b>2009/10 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>



Opening RAV (ETIRGORAV <sup>i</sup> )	41,215				
Dep <sup>i</sup>	2,061	2,061	2,061	2,061	2,061
Average asset value during efficiency period (ETIRGC <sup>i</sup> )	40,186	38,125	36,064	34,003	31,942

### England-Scotland interconnection

(east coast and west coast reinforcement combined costs)

#### Pre construction, contingency and construction costs

Project costs (£ 000) 2009/10 prices	t=p	t=-1	t=0	t=1	t=2	t=n
Forecast pre-construction and contingency costs (CFTIRG <sup>i</sup> )	5,390	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs		10,725	31,827	28,294	12,053	5,725
Average asset value during construction period (FTIRGC <sup>i</sup> )	n/a	5,362	26,294	55,491	75,598	75,874
Depreciation during Construction (FTIRGDepn <sup>i</sup> )			532	2,148	3,711	4,058

#### Post construction revenue

<b>Project costs</b> <b>(£ 000)</b> <b>2009/10 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV (ETIRGORAV <sup>i</sup> )	76,702				
Dep <sup>i</sup>	3,836	3,919	3,919	3,919	3,919
Average asset value during efficiency period (ETIRGC <sup>i</sup> )	74,784	72,482	68,565	64,646	60,729

### Sloy

#### Pre construction, contingency and construction costs

<b>Project costs</b> <b>(£ 000)</b> <b>2009/10 prices</b>	<b>t=p</b>	<b>t=-1</b>	<b>t=0</b>	<b>t=n</b>
Forecast pre-construction and contingency costs (CFTIRG <sup>i</sup> )	459	230	n/a	n/a
Forecast Construction Costs			10,768	4,654
Average asset value during construction period (FTIRGC <sup>i</sup> )	n/a	n/a	5,384	13,264
Depreciation during Construction (FTIRGDepn <sup>i</sup> )				561

#### Post construction revenue

<b>Project costs</b> <b>(£ 000)</b> <b>2009/10 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>

Opening RAV (ETIRGORAV <sup>i</sup> )	14,403				
Dep <sup>i</sup>	721	721	736	736	736
Average asset value during efficiency period (ETIRGC <sup>i</sup> )	14,043	13,322	12,874	12,139	11,402

DRAFT

# [ETC 15] Special Condition [x].Transmission Investment for Renewable Generation [NGET]

## Part 1 – TIRG Revenue Adjustment Calculation

XX.1 For each TIRG relevant year  $t$ ,  $TIRG_t$  shall be calculated in accordance with the following formula:

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

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.

XX.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;

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

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

### **IPTIRG<sub>t</sub>**

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

$$IPTIRG_t^i = CFTIRG_t^i \times RPIF_t$$

where:

$CFTIRG_t^i$  means the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) and shall have the value specified in 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

$RPIF_t$  shall have the same meaning as in special condition ETC 20 (Restriction on Transmission Network Revenue).

### **TIRGIncAd – Income Adjusting Event**

XX.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 cannot otherwise be recovered under the TIRG revenue allowance provided by this condition;
  - (v) the amount of any TIRGIncAd $^i$  income adjustment allowance proposed as a consequence of that event and how this TIRGIncAd $^i$  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 $^i$  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 $^i$  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 $^i$  income adjustment allowance in respect of the transmission

investment project  $i$  determined by the Authority under subparagraph (d) shall be zero.

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

**FTIRG<sub>t</sub>**

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

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

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<sub>t</sub><sup>i</sup>** means the average asset value for the transmission investment project  $i$  for each of the TIRG relevant years  $t=0$  to  $t=n$  and shall be determined as follows:

- (i) where the licensee has not been granted planning consent to build the transmission investment project  $i$ ,  $FTIRGC_t^i$  shall be zero; and
- (ii) 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 [ETC 20];

$FTIRGDepr_t^i$  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:

- (iii) where the licensee has not been granted planning consent to build the transmission investment project i,  $FTIRGDepr_t^i$  shall be zero; and
- (iv) where the licensee has been granted planning consent to build the transmission investment project i,  $FTIRGDepr_t^i$  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;

$AFFTIRGDepr_t^i$  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 ( $FTIRGDepr_t^i$ ) as a result of a TIRG asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 6.

## XX.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  $t=n$  ( $FTIRGC^i$ );
  - (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:
    - a. 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
    - b. 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 (FTIRGCt) 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 cannot otherwise be recovered under the TIRG revenue allowance provided by this special condition;
  - (v) the amount of any  $AFFTIRG^i_t$  adjustment proposed as a consequence of that event and how this  $AFFTIRG^i_t$  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 ( $FTIRGDepn^i_t$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
  - (vii) the amount of any  $AFFTIRGDepn^i_t$  adjustment proposed as a consequence of that event and how this  $AFFTIRGDepn^i_t$  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  $AFFTIRG^i_t$  adjustment in respect of the transmission investment project i; and
  - (iv) a  $AFFTIRGDepn^i_t$  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  $AFFTIRG^i_t$  and  $AFFTIRGDepn^i_t$  adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as

if that TIRG asset value adjusting event had not occurred, and in all other cases the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be zero;

- (g) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments for the transmission investment project i and the reasons for the determination;
- (h) The Authority may revoke a determination made under this paragraph with the consent of the licensee;
- (i) For the purpose of paragraph 5, the terms  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  shall be the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments for the transmission investment project i determined by the Authority under subparagraph (e), and where the Authority has not made a determination under subparagraph (e) shall be zero; 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<sub>t</sub>**

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

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

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:

$$\text{SAFRTIRG}^i = \frac{\text{SAFTIRG}^i}{\text{ETIRGORAV}^i}$$

where:

$\text{SAFTIRG}^i$  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

$\text{ETIRGORAV}^i$  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;

$\text{RPIF}_t$  shall have the same meaning as in special condition [ETC 20];

and

$\text{Dep}_t^i$  means the annual depreciation allowance for TIRG relevant year  $t$  and shall have the value specified in Annex A to this condition.

XX.8

- (a) The Authority shall determine (in consultation with the licensee and such other persons it considers necessary) the value of the term  $\text{SAFTIRG}^i$  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 ( $\text{AFFTIRG}_t^i$  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 ( $\text{AFFTIRGDepn}_t^i$  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<sup>i</sup> opening asset value for the transmission investment project i and the reasons for the determination.
- (d) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

## ATIRG

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

## Part 2 - Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation

XX.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 <sub>$t=0$</sub>  output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project i; and
  - (ii) the TIRG <sub>$t=n$</sub>  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<sub>i</sub>); and
- (ii) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Annex A to this condition.

XX.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.

XX.12

- (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.

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**Annex A to Special Condition [ETC 15] Supplementary Provisions**

**National Grid**

**England – Scotland Interconnection**

**East coast and west coast reinforcement combined costs**

**Pre construction, contingency and construction costs:**

<b>Project costs</b> <b>(£ 000)</b> <b>2009/10 prices</b>	<b>t=p</b>	<b>t=0</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=n</b>
Forecast pre-construction and contingency costs <i>(CFTIRG<sub>t</sub><sup>i</sup>)</i>	2,275,000	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs		13,974,000	29,238,000	34,605,000	29,170,000	13,768,000
Average asset value during construction period <i>(FTIRGC<sub>t</sub><sup>i</sup>)</i>	n/a	6,987,000	28,144,000	59,111,000	91,018,000	101,708,000
Depreciation during Construction ( <i>FTIRGDepn<sub>t</sub><sup>i</sup>)</i>		0	693,000	2,180,000	4,074,000	5,204,000



**Post construction revenue:**

<b>Project costs</b> (£) <b>2009/10 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV ( $ETIRGORAV^i$ )	105,983,000				
Dep <sup>i</sup>	5,299,000	5,414,000	5,414,000	5,414,000	5,414,000
Average asset value during efficiency period ( $ETIRGC_i^i$ )	103,333,000	100,153,000	94,739,000	89,326,000	83,912,000

**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:

- (a) line A in series with (B' paralleled with C), where:
- (b) 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 substation	275 (1130)	275 (1130)	400 (2010)

## **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.

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## **[ETC52]. Special Condition [x] Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period**

### **Introduction**

52.1 The purposes of this condition are:

- (a) to set out (in Part A of this condition) the basis and procedures for determining appropriate revisions to the values of input variables used in the calculation of revisions to PCFM Variable Values relating to transmission asset owner incentives scheme activity in price control periods prior to the Relevant Year 2013/14 (the “legacy period”), in so far as this activity relates to Transmission Investment Incentives Projects;
- (b) to set out (in Part B of this condition) the basis and procedures for determining appropriate amendments to project details of a given Transmission Investment Incentives Project where a TII asset value adjusting event (TII AVAE) has occurred;
- (c) to set out (in Part C of this condition) the basis and procedures for determining appropriate amendments to forecast output measures of a given Transmission Investment Incentives Project where a TII Output Measures Adjusting Event (TII OMAE) has occurred;
- (d) to set out (in Part D of this condition) the basis on which information should be provided by the Licensee to the Authority in relation to Transmission Investment Incentives Projects;
- (e) to set out (in Part E of this condition) the circumstances in which the Authority may specify details in respect of further works; and
- (f) to set out (in part F of this condition) the procedures for directing amendments to this condition to reflect determinations in line with the above.

52.2 For the purposes of paragraph 52.1(a) of this condition, the relevant PCFM Variable Values are the IAR and IRAV values determined in [ETC64] Special Condition [x] (Legacy price control adjustments – Transmission Owner) in line with the methodology set out in part D of Chapter 15 of the ET1 Price Control Financial Handbook.

52.3 For the purposes of this condition:

Relevant Year  $t'$  means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part [x] of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and references to Relevant Year  $t-1$  are to be construed accordingly.

PCFM Variable Value<sup>7</sup> means a value held in a PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a

determination under a relevant Special Condition; and

- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

52.4 The application of the mechanisms set out in this condition provides for:

- (a) the specification of values (set out in Appendix 1 of this condition) of the TII Assumed Allowance for each TII year, the TII Initial Allowance for each TII year, the TII Allowance Adjustment for each TII year and the TII Provisional Revenue Adjustment,
- (b) the determination and direction of revisions to the values (set out in Appendix 1 of this condition) of the TII Actual allowance for each TII year and TII Allowance Adjustment for each TII year;
- (c) the determination and direction of amendments to project details (set out in Appendix 2 of this condition) for funded pre-construction works and/or funded construction works on scheduled projects in the context of a TII AVAE;
- (d) the determination and direction of amendments to forecast output measures (set out in Appendix 2 of this condition) for funded construction works on scheduled projects in the context of a TII OMAE; and
- (e) the determination and direction of details (set out in Appendix 2 of this condition) in respect of additional further works for one or more TII years.

52.5 The application of the mechanisms set out in this condition means that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for the Relevant Year t for the purposes of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the Licensee's Base Transmission Network Activity Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance, adjustments attributable to the licensee in respect of:

- (a) activities carried out by the licensee;
- (b) incentivised performance by the licensee; and/or
- (c) costs or expenditure incurred by the licensee,

in the legacy period, in so far as this activity relates to Transmission Investment Incentives Projects, in relation to the transmission asset owner incentives scheme referred to in Parts A and B of [ETC 64] Special Condition [x].

52.6 This condition should be read and construed in conjunction with [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

52.7 This condition supersedes Special Condition [D11 - NGET][J12 – SPTL, SHETL] (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) (the “legacy TII condition”), while referring to certain provisions under that condition that were in force in a given TII year. This includes

paragraph 8 of the legacy TII condition under which information has previously been provided by the Licensee to the Authority in relation to Transmission Investment Incentives Projects.

**Part A: Basis of the calculation of IAR and IRAV and determination of revised values of input variables**

- 52.8 Through the determination of IAR values and IRAV values under [ETC 64] Special Condition [x] in line with the methodology set out in part D of Chapter 15 of the ET1 Price Control Financial Handbook, revenue adjustments and associated RAV adjustments may be made by the Authority, as a consequence of the Annual Iteration Process, to reflect:
- (a) a true-up of the difference between the TII Assumed Allowance for a given TII year and the TII Actual Allowance for the same TII year, and/or
  - (b) the application of the capital expenditure incentive regime on the difference between the expenditure incurred by the licensee in respect of Transmission Investment Projects for each TII year and the TII Actual Allowance for the same TII year.
- 52.9 For the purposes of paragraph 52.8 the TII Assumed Allowance and TII Actual Allowance for each TII year shall take the values given to their respective terms in Table 1 in Appendix 1, where
- (a) the value of the TII Actual Allowance is derived from the sum the TII Initial Allowance and the TII Allowance Adjustment for the same TII year, which shall take the values which are given to their respective terms in Table 2 of Appendix 1, and;
  - (b) Tables 1 and 2 of Appendix 1 may be amended by the Authority in accordance with paragraph 52.36, to reflect the determination of revised values of the TII Allowance Adjustment in respect of one or more TII years in accordance with paragraph 52.12.
- 52.10 For the purposes of applying the methodology referred to in paragraph 52.8(b), the Authority will also take into account:
- (a) the value of the TII Provisional Revenue Adjustment Term given in Table 3 of Appendix 1; and
  - (b) the relevant sharing factor(s) specified in Table 5 of Appendix 1.
- 52.11 For the purposes of paragraphs 52.8(a) and 52.8(b) the revenue adjustment shall be calculated so as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable:
- (a) the same as if the TII Actual Allowance in respect of a given TII year n had been known at the time of setting the licensee's allowed revenue for that same TII year n; and
  - (b) the same as if the revenue adjustment made under paragraph 52.8(b) had been taken into account by the Authority for the purposes of setting the licensee's allowed revenue for the relevant year commencing 1 April 2013.

52.12 The Authority may, by 31 March 2014 (or such later date identified by the Authority in writing for the purposes of this paragraph before 31 March 2014), determine revised values of the TII Allowance Adjustment in respect of one or more TII years to take account of:

- (a) the specification or adjustment of capital expenditure allowances for one or more TII years in respect of further works in accordance with paragraph 52.33;
- (b) the determination of a TII AVAE in accordance with paragraph 52.19; and/or
- (c) any overlap with funding provided under any other revenue recovery arrangements.

### **Part B: Adjustments in respect of a TII Asset Value Adjusting Event (TII AVAE)**

52.13 This part (which should be read in conjunction with Appendix 2) applies to scheduled projects only, and provides for a TII Asset Value Adjusting Event (TII AVAE) to have effect in relation to funded pre-construction works and/or funded construction works on scheduled project i in respect of the TII year 2012/13.

#### **Description of TII AVAE**

52.14 A TII AVAE means relevant additional pre-construction works or a relevant amendment to the scope of construction works (as defined in Part I of this condition), that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the scheduled project i, where the Authority is satisfied that those costs and expenses:

- (a) are expected to result in a material increase or decrease to the total capital expenditure value for the scheduled project i for the TII year 2012/13;
- (b) are expected to be efficiently incurred or saved, and
- (c) cannot otherwise be recovered under the revenue allowance provided by this condition or any other provision within the transmission licence.

#### **Licensee's notice to the Authority**

52.15 Where the licensee considers, and can provide supporting evidence that, a TII AVAE has occurred in relation to the scheduled project i, 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 by 30 June 2013 (or at such later date as the Authority notifies to the licensee for the purposes of this paragraph).

52.16 A notice provided under paragraph 52.15 shall give particulars of:

- (a) the TII AVAE to which the notice relates and the reason(s) why the licensee considers that event to be a TII AVAE, identifying the scheduled project i to which the notice relates and including details of and reasons for the relevant additional pre-construction works and/or relevant amendment to the scope of construction works (as appropriate);
- (b) 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;

- (c) the amount of any material increase or decrease in the total capital expenditure for the scheduled project i for TII year 2012/13 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;
- (d) the reasons why the licensee considers that the costs and/or expenses cannot otherwise be recovered under the revenue allowance provided by this special condition or any other provision within this licence;
- (e) the amount of any adjustment proposed to the pre-construction cost allowance and/or construction cost allowance (as appropriate) in respect of the scheduled project i for the TII year 2012/13 as a consequence of that event and how this adjustment has been calculated;
- (f) relevant internal papers where revised expenditure has been requested and relevant supporting information;
- (g) a statement from independent technical advisers setting out that in their opinion the relevant additional pre-construction works and/or amendment to the scope of construction works (as appropriate) as identified in the notice fairly reflect the TII AVAE and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses that have been incurred or saved by the relevant additional pre-construction works and/or amendment to the scope of construction works (as appropriate);
- (h) a statement on the impact of such an adjustment on the output measures associated with relevant scheduled project i, and,
- (i) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.

52.17 Where the licensee notifies the Authority of a TII AVAE under paragraph 52.15, 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.

### **Determination by the Authority**

52.18 Where the Authority receives a notice under paragraph 52.15, the Authority may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the event in order to reach a determination, and shall take into account further information provided by the licensee for this purpose within one month of submission of the notice under paragraph 52.15 (or such other date as the Authority notifies to the licensee for the purposes of this paragraph) before reaching a determination in accordance with paragraph 52.19.

52.19 Following consultation with such other parties as it considers may be affected by its determination, the Authority shall then determine:

- (a) whether a TII AVAE has occurred in respect of the scheduled project i. and
- (b) where the Authority determines that a TII AVAE has occurred in respect of scheduled project i,



- (i) whether the scheduled project i will remain economically efficient as a consequence of that TII AVAE; and
- (ii) an adjustment to the pre-construction cost allowance and/or construction cost allowance (as appropriate) and associated key project milestones (as applicable) in respect of the scheduled project i for the TII year 2012/13 that is to be given effect through a modification under Part E of this condition in relation to this paragraph.

52.20 Where the Authority determines:

- (a) under paragraph 52.19(a) that a TII AVAE has occurred in respect of the scheduled project i and
- (b) under subparagraph 52.19(b)(i) that the scheduled project i will remain economically efficient as a consequence of that TII AVAE,

the adjustments to the pre-construction cost allowance and/or construction cost allowance (as appropriate) in respect of the scheduled project i for the TII year 2012/13 determined by the Authority under subparagraph 52.19(b)(ii) 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 asset value adjusting event had been known at the time of setting the pre-construction cost allowance and/or construction cost allowance (as appropriate) for the scheduled project i for the TII year 2012/13.

### **Revocation**

52.21 The Authority may revoke a determination made under paragraph 52.19 following consultation with the licensee and may direct any consequential amendments to Appendix 2 following the procedure in Part F of this condition.

### **Part C: Adjustments in Respect of a TII Output Measures Adjusting Event (TII OMAE)**

52.22 This part (which should be read in conjunction with Appendix 2) applies to scheduled projects only, and provides for a TII Output Measures Adjusting Event (TII OMAE) to have effect in relation to funded construction works on a scheduled project i.

#### **Description of TII OMAE**

52.23 For the purposes of this condition, a TII OMAE means a relevant amendment to the scope of the construction works (as defined in Part I of this condition) which the Authority is satisfied is expected to cause a material change in the output measures specified in Appendix 2 to this condition for the scheduled project i.

#### **Licensee's notice to the Authority**

52.24 Where the licensee considers, and can provide supporting evidence that, a TII OMAE has occurred in relation to the scheduled 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 the commencement of relevant construction works (or at such later date as the Authority notifies to the licensee for the purposes of this paragraph).

52.25 A notice provided under paragraph 52.24 shall be accompanied by a statement from independent technical advisers setting out the amended scope of construction works and shall give particulars of:

- (a) the TII OMAE event to which the notice relates and the reason(s) why the licensee considers that event to be a TII OMAE, identifying the scheduled project i to which the notice relates and including details of and reasons for the relevant amendment to the scope of construction works;
- (b) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and
- (c) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.

### **Determination by the Authority**

52.26 Where the Authority receives a notice under paragraph 52.24, the Authority may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the event in order to reach a determination, and shall take into account further information provided by the licensee for this purpose within one month of submission of the notice under paragraph 52.24 (or such other date as the Authority notifies to the licensee for the purposes of this paragraph) before reaching a determination in accordance with paragraph 52.27.

52.27 Following consultation with such other parties as it considers may be affected by its determination, the Authority shall then determine:

- (a) whether a TII OMAE has occurred in respect of the scheduled project i; and
- (b) where the Authority determines that a TII OMAE has occurred in respect of the scheduled project i, an output measures adjustment in respect of the scheduled project i that is to be given effect through a modification under Part E of this condition in relation to this paragraph.

### **Revocation**

52.28 The Authority may revoke a determination made under paragraph 52.27 following consultation with the licensee and may direct any consequential amendments to Appendix 2 following the procedure in Part F of this condition.

### **Part D: Information to be provided to the Authority in connection with Transmission Investment Incentive projects**

52.29 This part applies to all Transmission Investment Incentives Projects and sets out the basis on which information should be provided to the Authority. The provisions of this part take into account information previously provided by the Licensee to the Authority in relation to Transmission Investment Incentives Projects under paragraph 8 of the legacy TII condition.

52.30 For each Transmission Investment Incentives Project i, the licensee shall provide the Authority with the following in respect of funded pre-construction works, funded construction works and/or further works as applicable:

- (a) not later than 30 June 2013 (or such later date as the Authority may notify to the licensee):

- (i) a pre-construction technical report, setting out the technical milestones achieved for funded pre-construction works and/or further works on the Transmission Investment Incentives Project i in respect of the TII year 2012/13 and, in the case of funded pre-construction works, the extent to which the Transmission Investment Incentives Project i complies with the key project milestones (as applicable) specified in Annex A to this condition for the relevant scheduled project i in respect of the TII year 2012/13;
  - (ii) a pre-construction expenditure report, setting out an itemised report of the pre-construction expenditure incurred for funded pre-construction works and/or further works on the Transmission Investment Incentives Project i in respect of the TII year 2012/13;
  - (iii) a construction technical report, setting out the technical milestones achieved for funded construction works and/or further works on the Transmission Investment Incentives Project i in respect of the TII year 2012/13 and, in the case of funded construction works, the extent to which the Transmission Investment Incentives Project i complies with the output measures and key project milestones (as applicable) specified in Annex A to this condition for the relevant Transmission Investment Incentives Project i; and
  - (iv) a construction expenditure report setting out an itemised report of the construction expenditure incurred for funded construction works and/or further works on the Transmission Investment Incentives Project i in respect of the TII year 2012/13.
- (b) Not later than three months after the end of the financial year in which relevant pre-construction works on the Transmission Investment Incentives Project i are completed (or such later date as the Authority may notify to the licensee):
- (i) an auditor's statement in respect of the pre-construction expenditure incurred by the licensee on the relevant Transmission Investment Incentives Project i and notified to the Authority in accordance with paragraph (a) of this condition or paragraph 8 of the legacy TII condition.
- (c) Not later than three months after the end of the financial year in which relevant construction works on the Transmission Investment Incentives Project i are completed (or such later date as the Authority may notify to the licensee):
- (i) a post construction technical report, accompanied by a construction completion certificate from independent technical advisers, setting out the actual capability of the Transmission Investment Incentives Project i and, in the case of funded construction works, the extent to which the Transmission Investment Incentives Project i complies with the output

- measures (as applicable) specified in Annex A to this condition for the relevant Transmission Investment Incentives Project i, and
- (ii) an auditor's statement in respect of the construction expenditure incurred by the licensee on the relevant Transmission Investment Incentives Project i and notified to the Authority in accordance with paragraph (a) of this condition or paragraph 8 of the legacy TII condition.

52.31 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.

#### **Part E: Further works**

52.32 Details of further works are specified in Table 3 of Appendix 1.

52.33 The Authority may determine amendments to Table 3 of Appendix 1 in order to add details of further works provided those further works relate to Wider Works for which the Authority has specified baseline Wider Works Outputs or for which the Authority determines Strategic Wider Works Outputs under Part G of [ETC 39] Special Condition [x] (Specification of Baseline and Strategic Wider Works outputs and Assessment of Allowed Expenditure).

52.34 The Authority will take into account any determinations under paragraph 52.33 in calculating the TII allowance Adjustment under paragraph 52.12.

52.35 For the purposes of paragraph 52.11, all further works will be subject to the same sharing factor as Wider Works Outputs.

#### **Part F: Procedure for the Authority's directions**

52.36 The Authority may direct modifications to:

- (a) Appendix 1 in order to:
  - (i) reflect the determination of amendments to Table 1 and Table 2 to reflect revised values of the TII Allowance Adjustment in respect of one or more TII years in accordance with paragraph 52.12
  - (ii) reflect the determination of amendments to Table 3 to add details in respect of further works in accordance with paragraph 52.33,
- (b) Appendix 2 in order to amend project details in respect of:
  - (i) funded pre-construction works and/or funded construction works to reflect the determination of a TII AVAE in accordance with paragraph 52.19 or the revocation of such a determination in accordance with paragraph 52.21; and/or
  - (ii) funded construction works to reflect the determination of a TII OMAE in accordance with paragraph 52.27 or the revocation of such a determination in accordance with paragraph 52.28.

52.37 A direction issued by the Authority under paragraph 52.36 is of no effect unless the Authority has first:

- (a) given Notice to interested parties that it proposes to issues a direction under paragraph 52.36:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) specifying, where appropriate, any TII Allowance Adjustment that has been determined in accordance with Part A of this condition and the details determined in respect of further works in accordance with Part E of this condition;
  - (iii) specifying the time (which must not be less than a period of 28 days within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

### **Part I: Interpretation**

52.38 For the purposes of this condition:

Annual Iteration Process	has the meaning given in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue);
ET1 Price Control Financial Handbook	has the meaning given in [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments);
Funded construction works	means specific works planned or undertaken by the licensee in respect of a given scheduled project, being those works for which key project milestones and forecast output measures are defined in respect of construction works and which are identified by the Authority as in scope of construction cost allowances specified in Annex A;
Funded pre-construction works	means specific works planned or undertaken by the licensee in respect of a given scheduled project, being those works for which key project milestones are defined in respect of pre-construction works and which are identified by the Authority as in scope of pre-construction cost allowances specified in Annex A;
Further works	means specific works planned or undertaken by the licensee in respect of a given Transmission Investment Incentives Project, being works which do not fall within the definition of funded pre-construction works or funded construction works but for which project-specific capital expenditure allowances in respect of one or more TII years are specified in Table 5 of Appendix a of this condition and taken into account in calculating the allowance adjustment;

IAR	means the PCFM Variable Value relating to the revenue allowance adjustment in respect of transmission asset owner incentives scheme activity in the legacy period, determined in accordance with Part A of [ETC64] Special Condition [x] (Legacy price control adjustments – Transmission Owner);
IRAV	means the PCFM Variable Value relating to the adjustment to the licensee’s RAV balance additions in respect of transmission asset owner incentives scheme activity in the legacy period, determined in accordance with Part B of [ETC64] Special Condition [x] (Legacy price control adjustments – Transmission Owner);
Project details	Means one or more of the following particulars specified in Annex A to this condition in respect to a given scheduled project: <ul style="list-style-type: none"> <li>(a) Pre-construction cost allowances;</li> <li>(b) Construction cost allowances;</li> <li>(c) Key project milestones; and</li> <li>(d) Forecast output measures</li> </ul>
Relevant additional pre-construction works	means an amendment to the scope of the pre-construction works carried out or expected to be carried out by the licensee during the relevant year 2012/13 as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of funded pre-construction works on the scheduled project i (including but not limited to planning consent);
Relevant amendment to the scope of construction works	means an amendment to the scope of construction works that is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of funded construction works on the scheduled project i (including but not limited to planning consent);
Scheduled project	means a Transmission Investment Incentives Project for which project details are specified in Appendix A to this condition in respect of funded pre-construction works and/or funded construction works;
TII Assumed Allowance	means the total capital expenditure allowance in respect of Transmission Investment Incentives Projects, expressed in 2009/10 prices, that was assumed by the Authority for the purposes of setting the licensee’s allowed revenue for a given TII year;
TII Actual Allowance	means the total capital expenditure allowance in respect of Transmission Investment Incentives Projects, expressed in 2009/10 prices, determined by the Authority for a given TII year;
TII Provisional Revenue	means the provisional revenue adjustment term for the financial

Adjustment Term	year 2012/13 (in 2009/10 prices) in respect of the application of the capital expenditure incentive regime on the difference between expenditure incurred and total capital expenditure allowance in respect of scheduled projects for the years 2009/10 and 2010/11, that was taken into account by the Authority for the purposes of setting the licensee's allowed revenue for the financial year 2012/13;
TII year	means a financial year commencing 1 April 2009, 1 April 2010, 1 April 2011, or 1 April 2012; and
Transmission Investment Incentives Project	means a transmission investment project for which project-specific capital expenditure allowances in respect of one or more TII years are reflected in the provisions under this condition and/or the legacy TII condition.

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## Appendix 1 to Special Condition ETC52 [NGET]

**Table 1: Inputs to calculation of IAR values (see paragraph 52.8)**

£m (2009/10 prices)	TII year			
	2009/10	2010/11	2011/12	2012/13
TII Assumed Allowance	2.093	72.110	146.396	313.200
TII Actual Allowance	2.093	72.110	161.896	260.691

**Table 2: Components of TII Actual Allowance (see paragraph 52.9)**

£m (2009/10 prices)	TII year			
	2009/10	2010/11	2011/12	2012/13
TII Initial Allowance	2.093	72.110	146.396	177.691
TII Allowance Adjustment	0.000	0.000	15.500	83.000

**Table 3: TII Provisional Revenue Adjustment Term (see paragraph 52.10)**

£m (2009/10 prices)	TII year 2012/13
TII Provisional Revenue Adjustment Term	-4.140

**Table 4: Further works for which project-specific capital expenditure allowances are taken into account in setting TII Allowance Adjustment (see paragraph 52.32)**

Further works			Capital expenditure allowance (£m 2009/10 prices) in respect of TII year			
Transmission Investment Incentives Project	Type of works	Works	2009/10	2010/11	2011/12	2012/13
Western HVDC link	Construction	HVDC link	0.000	0.000	15.500	83.000

**Table 5: Sharing factor (see paragraph 52.11)**

Works	Relevant sharing factor
All funded pre-construction works	25%
All funded construction works	25%
All further works	[48%]



## Appendix 1 to Special Condition ETC52 [SPTL]

**Table 1: Inputs to calculation of IAR values (see paragraph 52.8)**

£m (2009/10 prices)	TII year			
	2009/10	2010/11	2011/12	2012/13
TII Assumed Allowance	0.000	10.641	7.022	84.600
TII Actual Allowance	0.000	10.641	14.222	80.528

**Table 2: Components of TII Actual Allowance (see paragraph 52.9)**

£m (2009/10 prices)	TII year			
	2009/10	2010/11	2011/12	2012/13
TII Initial Allowance	0.000	10.641	7.022	42.328
TII Allowance Adjustment	0.000	0.000	7.200	38.200

**Table 3: TII Provisional Revenue Adjustment Term (see paragraph 52.10)**

£m (2009/10 prices)	TII year 2012/13
TII Provisional Revenue Adjustment Term	0.805

**Table 4: Further works for which project-specific capital expenditure allowances are taken into account in setting TII Allowance Adjustment (see paragraph 52.32)**

Further works			Capital expenditure allowance (£m 2009/10 prices) in respect of TII year			
Transmission Investment Incentives Project	Type of works	Works	2009/10	2010/11	2011/12	2012/13
Western HVDC link	Construction	HVDC link	0.000	0.000	7.200	38.200

**Table 5: Sharing factor (see paragraph 52.11)**

Works	Relevant sharing factor
All funded pre-construction works	25%
All funded construction works	25%
All further works	50%

**Appendix 1 to Special Condition ETC52 [SHETL]**

**Table 1: Inputs to calculation of IAR values (see paragraph 52.8)**

£m (2009/10 prices)	TII year			
	2009/10	2010/11	2011/12	2012/13
TII Assumed Allowance	11.384	59.074	41.547	101.800
TII Actual Allowance	11.384	59.074	41.547	46.333

**Table 2: Components of TII Actual Allowance (see paragraph 52.9)**

£m (2009/10 prices)	TII year			
	2009/10	2010/11	2011/12	2012/13
TII Initial Allowance	11.384	59.074	41.547	46.333
TII Allowance Adjustment	0.000	0.000	0.000	0.000

**Table 3: TII Provisional Revenue Adjustment Term (see paragraph 52.10)**

£m (2009/10 prices)	TII year 2012/13
TII Provisional Revenue Adjustment Term	3.130

**Table 4: Further works for which project-specific capital expenditure allowances are taken into account in setting TII Allowance Adjustment (see paragraph 52.32)**

Further works			Capital expenditure allowance (£m 2009/10 prices) in respect of TII year			
Transmission Investment Incentives Project	Type of works	Works	2009/10	2010/11	2011/12	2012/13

**Table 5: Sharing factor (see paragraph 52.11)**

Works	Relevant sharing factor
All funded pre-construction works	25%
All funded construction works	25%
All further works	50%

## Appendix 2 to Special Condition [ETC52]: Supplementary Provisions

This Appendix 2 sets out project details for funded pre-construction works and funded construction works (as applicable) in respect of scheduled projects. The Authority may direct amendments to this Appendix 2 in accordance with the provisions of Part F of this condition.

[NOTE - project details to be added for each scheduled project, taking the format below, with content based on that of the Annex A tables of existing Special Condition D11/J12]

### **[Scheduled project name]**

For the purposes of [Special Condition ETC52] project details are specified below for this scheduled project in respect of:

- [Funded pre-construction works]
- [Funded construction works].

#### 1. Cost allowances

project costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
[Pre-construction cost allowance]				
[Construction cost allowance]				

#### 2. Key project milestones

Description of project milestones	Delivered by 1 April 2010	Delivered by 1 April 2011	Delivered by 1 April 2012	Delivered by 1 April 2013
[For funded pre-construction works]				
[For funded construction works]				

### 3. Forecast output measures

<b>Description of output measures for funded construction works</b>	<b>By 31 March 2012</b>	<b>By 31 March 2013</b>	<b>Upon completion (if not completed by 31 March 2013)</b>

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## **[ETC 128] Special Condition [x] [D7 NGET and J11 SPTL&SHETL]: Allowances in respect of a Security Period**

Defined terms in square brackets still need to be considered. When square brackets appear – [first defined term is NGET specific text / Second defined term is for SPTL and SHETL]

### **Introduction**

128.1. The purpose of this condition is to set out the process for the licensee to recover Allowed Security Costs in the event of a Security Period.

### **Part A: Process for the recovery of Security Costs**

128.2. At any time during a Security Period, the licensee may give notice in writing to the Authority suspending, with effect from the date of receipt of the notice by the Authority, application of such of the [Transmission Network Revenue Restriction/Charge Restriction Conditions (defined terms here still to be considered)] as may be specified in the notice, for the unexpired term of the Security Period.

128.3. At any time during a Security Period, the Authority may (having regard to its duties) by means of a direction:

- (a) suspend or modify for the unexpired term of the Security Period the [Transmission Network Revenue Restriction/Charge Restriction Conditions] or any part or parts thereof; or
- (b) introduce for the unexpired term of the Security Period new [transmission network revenue restriction/charge restriction conditions];

in either case, so as to make such provision as in the opinion of the Authority is necessary or appropriate to enable the licensee to recover by means of an appropriate equitable increase on all of the charges made in the course of the [provision of Transmission Network Services /licence] an amount estimated as being equal to the licensee's Allowed Security Costs [attributable to the provision of Transmission Network Services (NGET only)] during such period. The licensee shall comply with the terms of any directions so issued.

128.4. Subject to paragraphs [128.5] and [128.7], the licensee shall in any Relevant Year be entitled to recover an aggregate amount equal to its Allowed Security Costs [attributable to the provision of Transmission Network Services (NGET only)] in that year or (in so far as not previously recovered) any previous year, by means of appropriate equitable increases on all of the charges made by the licensee in the course of the [provision of Transmission Network Services/ Transmission Business].

128.5. Paragraph [128.4] shall not apply in so far as such Allowed Security Costs:

- (a) were otherwise recovered by the licensee; or
- (b) were taken into account by the Authority in setting the [transmission network revenue restriction/ charge restriction conditions] by means of a direction issued under paragraph [128.3].

128.6. Following the end of each Relevant Year the licensee must provide to the Authority details in respect of that Relevant Year of:

- (a) the licensee's estimate of Allowed Security Costs;
- (b) the aggregate amounts charged under paragraph [128.4] on account of the licensee's Allowed Security Costs; and
- (c) the basis and calculations underlying the increases in charges made by the licensee in [its provision of Transmission Network Services together with an explanation of the basis of attribution of Allowed Security Costs to the provision of Transmission Network Services/the course of the transmission business].

128.7. Where the Authority is satisfied that the licensee has recovered amounts in excess of the Allowed Security Costs [attributable to the provision of Transmission Network Services (NGET only)], the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers [in receipt of Transmission Network Services/ of the licensee] for the excess amounts charged to them, and the licensee shall comply with any directions so issued [provided that if the excess amounts relate to Allowed Security Costs paid to any authorised electricity operator, the licensee shall not be obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator (NGET only)].

128.8. No amounts charged by the licensee under this condition (whether or not subsequently required to be reimbursed) shall be taken into account for the purpose of applying the provisions of {ETC 20] Special Condition[x] Restriction of Transmission Network Revenue].

**Part [x]: Interpretation**

128.9. For the purposes of this condition:

**Allowed Security Cost** means any exceptional cost as defined in the Fuel Security Code that is allowed by the Authority (upon receipt of such information, including a certificate from the auditors, and any additional requirements as the Authority may request) as being a cost which is directly attributable to any action taken or omitted to be taken by the licensee in its capacity as holder of the license for the purpose of complying with directions issued by the Secretary of State under Section 34(4) of the Act.

[NGET - Allowed Security Cost is not defined in the Fuel Security Code. Propose to use definition above that is in SHETL and SPTL's licence.]

**Security Period** means a period:

- (a) beginning on:
  - (i) the date on which a direction under section 34(4)(b) of the Act is given by the Secretary of State; or
  - (ii) such later date as may be specified in that direction; and

- (b) ending on such date (being not earlier than the date on which that direction, as from time to time amended, is revoked or expires) as the Secretary of State shall determine subject to:
  - (i) consultation by the Secretary of State with the Authority and such other persons as the Secretary of State considers appropriate (including those licensees which the Secretary of State considers are likely to be principally affected by notification under subparagraph (ii)); and
  - (ii) notification of that date to all licensees by the Secretary of State with the consent of the Authority.

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## [ETC12] Special Condition [x]. Restriction of System Operator Internal Revenue [NGET only]

### Introduction

12.1 The purpose of this condition is:

- (a) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its internal costs as System Operator; and
- (b) to set out the obligations of the licensee from the balancing services activity in respect of those charging restrictions.

### Part A: Licensee's obligation

12.2 The licensee must use reasonable endeavours to ensure that, in Relevant Year t, the revenue collected 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 the [SO external costs condition]) does not exceed the amount derived in accordance with the Maximum SO Internal Revenue (SOI) formula set out in Part B below.

### Part B: Calculation of Maximum SO Internal Revenue

12.3 The Maximum SO Internal Revenue is derived in accordance with the following formula (in this condition, the Principal Formula):

$$SOI_t = SOBR_t$$

12.4 In the Principal Formula:

$SOI_t$  means the amount of Maximum SO Internal Revenue in Relevant Year t.

$SOBR_t$  means the amount of Base SO Internal Revenue in Relevant Year t as calculated using the formula set out in Part C of this condition.

### Part C: Calculation of Base SO Internal Revenue

12.5 For the purposes of the Principal Formula, the amount of  $SOBR_t$  is derived in accordance with the following formula:

$$SOBR_t = (SOPU_t + SOMOD_t + SOTRU_t) \times RPIF_t$$

[If  $SOBR$  is the only term in  $SOI$  this condition could be simplified to  $SOI = (SOPU + SOMOD + SOTRU) \times RPIF$ ]

12.6 In the formula for the  $SOBR_t$  term in paragraph 12.5:

$SOPU_t$  means the amount in Appendix 1 and represents the opening base SO Internal Costs revenue allowance determined by the



Authority.

$SOMOD_t$  has the value zero in Relevant Year 2013/14 and, in each subsequent Relevant Year, is the value of the incremental change to the licensee's opening base SO Internal Costs revenue allowance for Relevant Year t (set out in Appendix 1) derived from the Annual Iteration of the ET1 Price Control Financial Model and is derived in accordance with the process set out in Parts [A and B] of [ETC26Special Condition [x](Annual Iteration Process for the ET1 Price Control Financial Model).

$RPIF_t$  is the price index adjustment factor and is derived in accordance with Part C of [ETC20] Special Condition [x].

$SOTRU_t$  has the value zero in Relevant Year 2013/14 and, in each subsequent Relevant Year, means the amount of the revenue adjustment, whether of a positive or negative value, made in Relevant Year t in respect of the difference between the assumed value of the Retail Prices Index in Relevant Year t-2 and the actual value of the Retail Prices Index in Relevant Year t-2, and is derived in accordance with paragraph 12.7 of this condition.

12.7 For the purposes of paragraph 12.6 of this condition,  $SOTRU_t$  is derived in accordance with the following formula:

$$SOTRU_t = \left( \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right) \times SOREV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

12.8 In the formula for the  $SOTRU_t$  term in paragraph 12.8:

$PVF_t$  means the present value adjustment term for Relevant Year t and shall be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority for Relevant Year t and the expressions t-1 and t-2 should be interpreted accordingly.

$SOREV_{t-2}$  means the amount (in 2009-10 prices), for Relevant Year t-2, of the combined value of all SO Special Condition revenue adjustments that are indexed by the Retail Prices Index and is derived in accordance with the following formula:

$$SOREV_{t-2} = \frac{SOBR_{t-2}}{RPIF_{t-2}}$$

where:

$SOBR_{t-2}$  means the amount of Base SO Internal Revenue in Relevant Year t-2 as derived in accordance with the formula set out in this Part C.

## Appendix 1

Opening Base Revenue allowance for SO Internal Costs in 2009/10 prices (see paragraph 12.6 of this condition)

Licensee	SOPU <sub>t</sub> Value (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Value of SOPU <sub>t</sub> (£m)	xxx	xxx	xxx	xxx	xxx	xxx		

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## **[ETC127] Special Condition [x]. Restriction on System Operator External Costs**

To be developed as part of SO 2013

## **[ETC13 and ETC29] Special Condition [x]. Disapplication of Relevant Special Conditions**

Changes to this condition are being consulted on elsewhere. Please see - <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=302&refer=Networks/Tran/PriceControls/RIIO-T1/ConRes>

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## **[ETC 31] Special Condition [x]. Services treated as Excluded**

### **Services**

[We note that this condition has not changed since the First Consultation. Stakeholder responses to this draft can be found in Supporting Document 5 and we will consider as part of the ongoing working group process]

#### **Introduction**

- 31.1 The purpose of this condition is to set out the basis on which services provided by the licensee may be treated as Excluded Services under the Special Conditions.
- 31.2 Excluded Services are services that conform with the General Principle set out at Part B below and that include, without limitation, those services listed at paragraph [31.12].
- 31.3 Excluded Services are services provided by the licensee for which revenue is derived but are excluded from the [Maximum Revenue/Allowed Transmission Owner Revenue] formula.

#### **Part A: Structure of this condition**

- 31.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the licensee are to be treated as Excluded Services.
- 31.5 Part C sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services.
- 31.6 Part D provides for the Authority to give directions in respect of services provided by the licensee that are to be treated as Excluded Services. It also provides for the Authority to direct that any service should not be treated as an Excluded Service.

#### **Part B: Statement of General Principle**

- 31.7 The General Principle is that a service provided by the licensee as part of its Transmission Business [define term] is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 31.8.
- 31.8 The charges referred to in paragraph 31.7 are those charges that are levied by the licensee in respect of:

[Referencing needs to be updated for RIIO referencing once have final numbers and names]

- (a) Transmission network services, under the provisions of Special Condition [[ETC20] (Restriction on Transmission Network Revenue)];
- (b) Internal balancing services activity, under the provisions of Special Condition [ETC12] (Restriction on System Operator Internal Costs); [NGET only]
- (c) External balancing services activity, under the provisions of Special Condition [ETC127] (Restriction on System Operator External Costs); and [NGET only]
- (d) an activity carried out under any provision of [ETC 10 (Network Innovation Competition)] which results in Royalty Income as defined in [ETC10].

## **Part C: Categories of Excluded Services**

- 31.9 The descriptions of categories of Excluded Services set out at paragraph 31.10 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGs issued by the Authority under (respectively) [ETC74] standard condition B15 (Regulatory Instructions and Guidance) of this licence.
- 31.10 Subject to Part D of this condition, Excluded Services shall include, but are not limited to, the following services:
- ES1. Connection services: This category consists of the carrying out of works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain electric lines, electrical plant, or meters necessary to provide any new connection or modify any existing connection to the licensee's transmission system, (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 31.8).
- ES2 Diversionary works under an obligation: This category consists of the relocating of any electric line or electrical plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9(2) (General duties of licence holders) of the Act.
- ES3. Works required by any alteration of premises: This category consists of the moving of any electric line or electrical plant that forms part of the licensee's transmission system to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.
- ES4 Telecommunications and information technology infrastructure services: This category consists of allowing the use of any electric line or electrical plant that forms part of the licensee's transmission system to carry, either directly or indirectly (including by the incorporation of third party equipment), electronic information and data.
- ES5 [SPTL and SHETL only] Outage Changes: The net costs reasonably incurred by the licensee as a result of any outage change. For the purpose of this Schedule an "outage change" is a change to the outage plan notified to the licensee by the system operator on or after week 49, as updated from time to time in accordance with the STC.
- ES[5/6]Miscellaneous: This category consists of the provision of any other service (including the provision of electric lines or electrical plant) that
- (a) is for the specific benefit of any third party who requests it; and
  - (b) is not made available by the licensee as a normal part of the activities of its Transmission Business.

## **Part D: Authority's power to give directions**

- 31.11 Where the Authority (having regard to the General Principle) is satisfied:
- (a) that any service treated by the licensee as an Excluded Service should not be so treated; or
  - (b) that any service not treated by the licensee as an Excluded Service should be so treated

it may issue to the licensee a direction to that effect.

31.12 Where a direction is given under paragraph [31.11], the licensee must, in accordance with the Direction, either:

- (a) stop treating the service or services specified in the direction as Excluded Services; or
- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

**Part E: Interpretation**

31.13 For the purposes of this condition:

Excluded Services has the meaning provided in paragraph 31.2

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## [ETC62] Special Condition [x]. Pre-construction Engineering outputs for Strategic Wider Works Outputs

### Introduction

62.1 The purpose of this condition is to specify the Pre-construction Engineering (PE) Outputs the licensee is expected to deliver during the Price Control Period and the allowed expenditure associated with those Outputs.

#### Part A: Specifying Pre-construction Engineering Outputs

62.2 Table 1 gives the details of the PE Outputs that may be economical and efficient for the licensee to deliver for each relevant Strategic Wider Works Output during the Price Control Period (subject to the provisions of Part B of this condition) and the allowed expenditure associated with these Outputs.

**Table 1: Pre-construction Engineering Outputs**

Prospective wider works	Pre-construction Engineering outputs	Allowed expenditure	Expected completion date
	Technical design plans & consents		

62.3 The allowed expenditure figures set out in Table [1] have been reflected in the licensee's opening base revenue allowances, set out against the licensee's name in Appendix 1 to [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue).

62.4 The licensee shall report annually to the Authority on progress in delivering the PE Outputs and actual expenditure incurred under the [ETC74] Standard Condition [x] Regulatory Reporting Instructions and Guidance.

#### Part B: Substitution of PE Outputs

62.5 This part (which should be read in conjunction with Part C) provides for an Output Substitution (OS) to have effect in relation to PE Outputs specified in Part A of this condition.

62.6 For the purposes of this condition, an OS arises where the Authority is satisfied that:

- (a) there has been a significant change in outlook for the type, location and timing of future generation connections and/or demand requirements compared to the scenarios used to set and specify a PE Output in Table 1 in Part A; and

- (b) as a result there has been a significant change in the future wider reinforcements on the National Electricity Transmission System that are likely to be required with the consequence that a PE Output specified in Part A is no longer economical and efficient and that an alternative PE Output is required instead.

### **Part C: Assessment of a PE Output Substitution**

62.7 This Part C sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a PE Output specified in Part A of this condition requires an OS (within the meaning of Part B); and, if so,
- (b) to approve the OS.

### **Licensee's notice to the Authority**

62.8 Where the licensee considers that there has been a significant change in outlook for the type, location and timing of future generation connections and/or demand requirements compared to the scenarios used to specify a PE Output in Part A and that as a result a PE Output specified in Part A is no longer economical and efficient and that an alternative PE Output is required instead, the licensee shall give notice to the Authority as soon as is reasonably practicable, and in any event within three months after the end of the Relevant Year in which the PE Output was scheduled for delivery (or by such later date as the Authority may notify to the licensee).

62.9 A notice under paragraph 62.8 must include:

- (a) the reasons for the request, along with relevant supporting evidence to justify the Output Substitution; and
- (b) a description of the alternative PE Output and the Strategic Wider Works Output on the National Electricity Transmission System for which the PE Output relates to.

62.10 The notice must also contain or be accompanied by:

- (a) a statement about whether the Output Substitution proposed by the licensee has any implications for other Outputs specified in Part A; and
- (b) any other analysis or information that the licensee considers relevant to the Authority's assessment of the event.

### **Determination by the Authority**

62.11 Where the Authority receives notice from the licensee under paragraph 62.8, it will determine:

- (a) whether an Output Substitution to a PE Output specified in Part A of this condition is justified; and
- (b) the adjustment that is to be given effect through a modification under Part D of this condition in relation to the specified output.

### **Revocation**



62.12 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 62.11.

#### **Part D: Modification to amend the details of PE Outputs**

62.13 The Authority may direct modifications to Table 1 in Part A of this condition in order to amend details of a PE Output in accordance with the provisions of this Part D.

62.14 The reason for modifying details of outputs referred to in paragraph 13 shall arise from an Output Substitution defined in Part B and determined by the Authority in accordance with Part C.

62.15 A direction issued by the Authority under paragraph 13 is of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 13:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) specifying, where appropriate, any PE Output Substitutions that have been determined in accordance with Part C of this condition; and
  - (iii) specifying the time (which must not be less than a period of 28 days within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

#### **Part E: Ex post adjustments where PE Outputs have not been delivered**

62.16 Where the licensee has not delivered or has only partially delivered a PE Output set out in Part A at the end of the Price Control Period, the Authority shall adjust allowed expenditure in relation to the PE Output to ensure only efficiently incurred costs are recovered.

#### **Part F: Interpretation**

62.17 For the purposes of this condition:

Pre-construction Engineering means the initial activities undertaken by the licensee to develop the technical design plans and obtain the necessary planning or development consents in preparation for constructing a Strategic Wider Works Output on the National Electricity Transmission System.

Pre-construction Engineering Outputs means the deliverables required in connection with the pre-construction engineering activities necessary to prepare a feasible, economical and efficient technical design for the relevant Strategic Wider Works Output. These outputs are likely to include:

- (a) routing, siting and optioneering studies
- (b) environmental assessments

- (c) project design studies and selection
- (d) technical specifications for cost tenders; and
- (e) planning and/or development consents

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## **[ETC45] Special condition [x]. Electricity Transmission Losses reporting**

### **Introduction**

45.1 The purpose of this condition is to set out the reporting requirements the licensee shall undertake to inform stakeholders about the steps the licensee is taking to contribute to a lower level of Transmission Losses on the licensee's Transmission System.

### **Part A: Reporting requirements in relation to Transmission Losses**

45.2 On or before [1 December 2013], the licensee shall publish a strategy for the Price Control Period setting out how the licensee intends to contribute to a lower level of Transmission Losses on the licensee's Transmission System that fulfils the licensee's duties and in particular its duty under Section 9(2) of the Electricity Act 1989 to develop and maintain an efficient, co-ordinated and economical system of electricity transmission. The licensee's strategy should include, but is not limited to the following:

- (a) a description of the methodology used by the licensee to take Transmission Losses into account when designing new load related developments to the licensee's transmission system;
- (b) a description of the licensee's methodology to take Transmission Losses into account when the licensee is evaluating non-load related asset replacement programmes on the licensee's transmission system;
- (c) a description of the licensee's asset procurement processes including how the licensee determines the optimal specifications in relation to Transmission Losses arising from the installation of new equipment when it requests tenders from manufacturers;
- (d) a summary of key network developments to the licensee's Transmission System and estimates of the impacts those developments will have on Transmission Losses on the licensee's Transmission System;
- (e) a summary of the licensee's asset replacement programmes and estimates of the impacts those programmes will have on Transmission Losses on the licensee's Transmission System; and
- (f) a description of the potential application of new and alternative technologies to the licensee's Transmission System during the Price Control Period and the impact these technologies may have in relation to Transmission Losses.

45.3 On or before 31 October 2014 and for each subsequent year, [unless the Authority otherwise directs], the licensee shall publish an annual Transmission Losses report for the previous Relevant Year prepared in accordance with the provisions of this condition to be published on, and is readily accessible from its website. The annual Transmission Losses report shall include in detail:

- (a) the level of Transmission Losses from the licensee's Transmission System, measured as the difference between the units of electricity metered on entry to

the licensee's Transmission System and the units of electricity metered on leaving that system;

- (b) a progress report on the implementation of the licensee's strategy under paragraph 2 including the licensee's estimate of the contribution to a lower level of Transmission Losses on the licensee's Transmission System that has occurred as a result; and
- (c) any changes or revisions the licensee has made to the strategy in accordance with paragraph 2.

45.4 The strategy under paragraph 2 and the report under paragraph 3 must contain or be accompanied by a description of any calculations the licensee has used to estimate Transmission Losses on the licensee's Transmission System.

### **Part B: Interpretation**

45.5 For the purposes of this condition:

Price Control Period	means the period running from 1 April 2013 to 31 March 2021.
Transmission Losses	means the units of electricity unaccounted for on the licensee's transmission system. Unless specified in paragraph [45.3 (a)], the licensee may estimate "Transmission Losses" using the licensee's own calculations.

## **[ETC 53] Special Condition [x]. Network Access Policy**

### **Introduction**

- XX.1. The purpose of this condition is to set out the requirements relating to the Network Access Policy. The condition requires the licensee to publish no later than 30 days after 1 April 2013, and from then on to continue to act consistently with, a Network Access Policy (“the NAP”). The NAP is designed to facilitate efficient performance and effective liaison between the System Operator and Transmission Owners in relation to the planning, management, and operation of the National Electricity Transmission System (NETS) for the benefit of consumers.
- XX.2. For the avoidance of doubt, nothing in this condition replaces, overrides, or limits:
- (a) any statutory duty imposed on the licensee;
  - (b) (any other obligation of the licensee under licence or code, particularly in relation to the licensee’s compliance with standard condition B12 (System Operator – Transmission Owner Code), standard condition D2 (Obligation to provide transmission services), and standard condition D3 (Transmission system security standard and quality of service); and
  - (c) the System Operator - Transmission Owner Code (“the STC”)

### **Part A: Licensee’s obligations in relation to the NAP**

- XX.3. The licensee must from no later than 30 days after 1 April 2013 and for the Price Control Period have in place a NAP that:
- (a) has been approved by the Authority following consultation with transmission licensees and such other interested parties as the Authority considers appropriate; and
  - (b) conforms to the requirements set out in Part B below.
- XX.4. The licensee must maintain the NAP approved under paragraph XX.3(a) in accordance with the requirements set out in Part C below.
- XX.5. Approval by the Authority under paragraph XX.3(a) may be subject to conditions requiring further action to be undertaken by the licensee in relation to the NAP as the Authority considers appropriate.
- XX.6. The licensee must incorporate the NAP into its planning and operations. It must act consistently with the NAP as approved by the Authority, subject always to the need to ensure the safe and secure operation of the NETS as a whole or any part of it.

### **Part B: Essential requirements of the NAP**

- XX.7. The NAP that is in place under this condition must include or make provision for the following matters:
- (a) details of the actions that the licensee will take to coordinate with the System Operator and other Transmission Owners to ensure that network outage arrangements associated with the coordinated development and reinforcement of the NETS, and the replacement, refurbishment, and maintenance of

transmission network assets, to secure the best long term outcome (including costs) for customers;

- (b) details of the actions that the licensee will take for the purposes of responding to and managing unplanned network outages with a view to minimising contribution to network constraints subject to the need to ensure the safe and secure operation of the NETS as a whole or any part of it;
- (c) details of the kind of exceptional events in which the application of the provisions of either or both of paragraphs (a) and (b) might need to be amended;
- (d) a description of such changes to the application of the provisions of either or both of paragraphs (a) and (b) (including any additional options) as might be implemented with the agreement of the System Operator; and a description of the licensee's communication and coordination strategy for interacting with the System Operator in respect of matters relating to network access (including description in practical terms of how the licensee gives effect to the relevant provisions of the STC and details of any proposals for enhancing communication and coordination over and above the STC requirements).

### **Part C: Procedure for amending the NAP**

- XX.8. The licensee must from time to time and at least once in every two years while this licence is in force, review and make such amendments as may be necessary to the NAP in order to ensure that the information contained in it continues to be accurate and consistent with the purpose of this condition.
- XX.9. Where the licensee proposes to revise or otherwise amend the NAP, it must provide a full statement to the Authority of the proposed amendments and provide a copy of that statement to the System Operator and other transmission licence holders.
- XX.10. The statement to which paragraph 9 refers must include an explanation of the reasons for the proposed revision or amendment, together with such supporting evidence as the licensee considers will assist the Authority in its consideration of the proposed amendment.
- XX.11. The Authority's consideration of the proposed revision or amendment will include consideration of any submission made by the System Operator and other holders of a transmission licence.
- XX.12. The licensee must supply the further information within such period of time as the Authority may reasonably request for the purpose of enabling it to consider the licensee's proposed revisions to the NAP.
- XX.13. The Authority (following consultation with the licensee and such other interested parties as it considers appropriate) may:
  - (a) approve the proposed revision, subject, where necessary, to such terms and conditions relating to further action to be undertaken by the licensee in relation to the NAP as the Authority considers appropriate; or
  - (b) reject the licensee's proposal (and, where appropriate, give recommendations as to alternative revisions which it considers ought to be made).

XX.14. Where approved by the Authority, the revised NAP both supersedes and revokes (with effect from such date as may be specified in the NAP) any previous version of the NAP in place under this condition.

XX.15. In the event that the Authority approves a revision or amendment to the NAP under the procedure set out in Part C, the licensee must ensure that the NAP made available under paragraph 16(a) is updated within 5 working days of the Authority granting approval under paragraph 13.

**Part D: Availability of the NAP**

XX.16. The licensee must ensure that the NAP in place under this condition:

- (a) is published on, and readily accessible from its website; and
- (b) is otherwise available to any person who requests it upon payment of an amount (if any) that does not exceed the reasonable costs of making and supplying that copy.

**Part E: Interpretation**

XX.17. For the purposes of this condition:

Network Access Policy	has the meaning given to that term in paragraph XX.1 of this condition.
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**[ETC 43] Special Condition F. Amended standard conditions [SPTL and SHETL]**

1. Standard condition A1 (Definitions and interpretation) shall be amended as follows:

(a) the following text shall be inserted between the definition of "Section D (transmission owner standard conditions) Directions" and the definition of "statutory accounts":

"separate business"

means each or any of:

- (a) any supply business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
- (b) any distribution business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
- (c) any generation business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
- (d) any interconnector business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee.";

(b) in the definition of "transmission business", the following text shall be added as sub-paragraph (i) "any other separate business;"



- (c) the existing sub-paragraphs (i) and (ii) of the definition of "transmission business" shall be renumbered as (ii) and (iii) respectively; and
- (d) in the definition of "transmission business" in sub-paragraph (iii), the words "(whether or not a separate business)" are inserted after "any other business".
2. ~~Standard condition B1 (Regulatory accounts) shall be amended by the addition of the following text at the beginning of paragraph 6:~~
- ~~"6. Unless the Authority otherwise consents (such consent may be given in relation to some or all of the obligations in this condition and may be given subject to such conditions as the Authority considers appropriate), ...".~~

**[ETC 44] ~~Special Condition G: Requests for transit [SHETL and SPTL]~~**

[Remove all text]

**[ETC 44] ~~Special Condition K: Requests for transit [NGET only]~~**

[Remove all text]

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## **[ETC137]: Removal of Special Conditions defined as 'not used' in the existing licence [NGET only]**

From the current NGET licence, we propose to remove the following licence conditions and text:

~~Special Condition I: Not used~~

~~Special Condition L: Not used~~

~~Special Condition AA5D: Not used~~

~~Special Condition AA5F: Not used~~

~~Special Condition AA5G: Not used.~~

~~Special Condition AA5H: Not used.~~

**SPECIAL CONDITIONS: PRICE CONTROL  
FINANCIAL MODEL (PCFM) VARIABLES**

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## **[ETC 9] Special Condition [x]. The Innovation Roll-out Mechanism**

### **Introduction**

- 9.1 The purpose of this condition is to determine any appropriate revisions to PCFM Variable Values relating to allowed innovation Roll-out expenditure ('IRM' values) and the Relevant Years to which those revisions relate, for use in the Annual Iteration Process for the T1 Price Control Financial Model, as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).
- 9.2 The IRM value is set at £0m for all Relevant Years unless otherwise directed by the Authority.
- 9.3 The IRM value relating to a particular Relevant Year represents the total amount of the licensee's allowed innovation Roll-out expenditure (in 2009/10 prices) for that Relevant Year.
- 9.4 The application of the mechanisms in this condition provides for:
- (a) the licensee to propose adjustments to its IRM values during either of the two windows specified in Part C;
  - (b) determinations by the Authority in relation to proposals by the licensee under sub-paragraph (a); and
  - (c) the direction, where applicable of revised IRM values.
- 9.5 The determination and direction of revised IRM values, where applicable will, as a consequence of the Annual Iteration Process for the T1 Price Control Financial Model, mean that the value of the term MOD as derived for Relevant Year t for the purposes of Part C of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
- (a) takes account of the approval of changes to IRM values for particular Relevant Years; and
  - (b) takes account of approved changes for the purposes of the Totex Incentive Mechanism adjustment as set out in [ETC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner).

### **Part A: Features that qualify an innovation Roll-out for additional funding**

- 9.6 The Roll-out by the licensee of a Proven Innovation may allow the licensee to receive additional funding within the Price Control Period only if the Authority is satisfied that this:
- (a) will deliver Carbon Benefits or any wider environmental benefits;
  - (b) will provide long-term value for money for electricity consumers;
  - (c) will not enable the licensee to receive commercial benefits from the Roll-out within the remainder of the Price Control Period (for instance, where the Roll-out of a Proven Innovation will lead to cost savings (including benefits from

other incentives) equal to or greater than its implementation costs within the Price Control Period, the licensee will not be eligible for funding under this condition); and

- (d) will not be used to fund any of the Ordinary Business Arrangements of the licensee.

### **Part B: Licensee's ability to propose a Relevant Adjustment**

- 9.7 The licensee may by notice to the Authority, and in accordance with Parts C and D below, propose a Relevant Adjustment within the meaning of paragraph 9.9 to recover Innovation Roll-out Costs where these costs would constitute a material amount within the meaning of paragraph 9.8.
- 9.8 A material amount is the amount of the Innovation Roll-out Costs, when multiplied by the licensee's Totex Incentive Strength Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's materiality threshold amount, as set out in Appendix 2.
- 9.9 A Relevant Adjustment is an adjustment:
  - (a) which the licensee believes will enable it to recover Innovation Roll-out Costs associated with a single Proven Innovation that would not otherwise be recoverable under the Special Conditions; and
  - (b) which applies only in respect of Innovation Roll-out Costs that have not yet been incurred.

### **Part C: Application windows for Relevant Adjustment proposals**

- 9.10 There are two application windows during which a Relevant Adjustment may be proposed by notice served under Part B above:
  - (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
  - (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.
- 9.11 A Relevant Adjustment may be proposed during either of the application windows provided that in each case the proposal complies with the provisions of paragraphs 9.8 and 9.9.

### **Part D: Other provisions relating to the licensee's proposal**

- 9.12 A notice served by the licensee under Part B above must in all cases:
  - (a) state any statutory obligations or any requirements of this licence to which the notice relates;
  - (b) describe the Proven Innovation that the licensee proposes to Roll-out;
  - (c) propose the amount of the Relevant Adjustment and set out, by reference to the Innovation Roll-out Costs, the basis on which the licensee has calculated the Relevant Adjustment;

- (d) demonstrate that the costs to be recovered by the Relevant Adjustment will be a material amount for the purposes of paragraph 9.8;
- (e) demonstrate how each of the criteria set out in Part A above will be fulfilled by the additional funding sought;
- (f) propose relevant outputs or other end products against which the Roll-out will be assessed; and
- (g) state the date from which it is proposed that the Relevant Adjustment will have effect (“the adjustment date”).

9.13 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a Relevant Adjustment proposed during the first application window; and
- (b) 1 April 2019 in the case of a Relevant Adjustment proposed during the second and final application window.

#### **Part E: Authority’s determination of a Relevant Adjustment**

9.14 Where the licensee serves a notice under Part B, the Authority may, within four months of the close of the application window during which the notice was submitted to the Authority, determine whether the proposed Relevant Adjustment should result in an adjustment to the IRM values subject to paragraphs 9.15 and 9.16.

9.15 In determining any Relevant Adjustment under this Part E, the Authority must:

- (a) consult the licensee;
- (b) have particular regard to the purposes of this condition, and, the notice made under Part B of this condition; and
- (c) take no account of the financial performance of the licensee relative to any of the assumptions, whether expressed or implied, by reference to which the Special Conditions may have been framed.

#### **Part F: Determination by the Authority of adjustments to IRM value**

9.16 This part sets out the basis for determining revisions to the IRM value for use in the Annual Iteration Process for the T1 Price Control Financial Model.

9.17 Table 1 will be deemed to set out:

- (a) the amounts of allowed expenditure for each notice the Authority has determined in the year t-1 in accordance with Part E the licensee should be able to recover to fund the Roll-out of a Proven Innovation; and
- (b) the total amount of allowed expenditure for all notices the Authority has determined in the year t-1 in accordance with Part E the licensee should be able to recover under this condition, the IRM values.

**Table 1: Allowed expenditure the Authority has determined in accordance with Part E the licensee should be recoverable to fund the Roll-out of a Proven Innovation.**

Allowed expenditure (£m 2009/10 prices)	Relevant Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
IRM notice								
Notice determined in year x the Authority has determined the licensee should be able to recover expenditure for Roll-out of innovation y.								
Etc								
Total								

9.18 The Authority shall, by 30 November in each Relevant Year t-1 check whether the allowed expenditure for any Relevant Year set out in Table 1 is different to the IRM value in the PCFM for the corresponding Relevant Year and, in any case where it is different, the Authority shall:

- (a) determine that the IRM value for the applicable Relevant Year is to be revised to reflect any changes as a result of determinations made by the Authority under Part E of this condition in the year t-1 set out in Table 1; and
- (b) issue a direction, in accordance with the provisions of Part G of this condition specifying any revised IRM values determined under sub-paragraph (a) and the Relevant Years to which they relate.

**Part G: Procedure for direction of revised IRM values by the Authority**

9.19 Any revised IRM values determined by the Authority in accordance with Part F of this condition and ETC 47 (Determination of PCFM Variables Values for Totex Incentive Mechanism Adjustments – Transmission Owner) Special Condition[x] will be directed by the Authority by 30 November in each Relevant Year t-1.



- 9.20 Before issuing any directions under paragraph 9.19, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 9.21 The notice referred to in paragraph 9.20 must:
- (a) state that any revised IRM values have been determined in accordance with Part F of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised IRM values.
- 9.22 The Authority shall have due regard to any representations or objections duly received in response to this notice under paragraph 9.21, and give reasons for its decisions in relation to them.
- 9.23 Where the Authority directs any revised IRM values relating to Relevant Years which are earlier than Relevant Year t, the effect of using those revised IRM values in the Annual Iteration Process for the T1 Price Control Financial Model will, subject to a time value of money adjustment as set out in ETC 57 (Governance of ET1 Price Control Financial Instruments ) Special Condition (x), be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.
- 9.24 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised IRM values by 30 November, then no revised IRM values will be used in the Annual Iteration Process that is required by [ETC 26] (Annual Iteration Process of the ET1 Price Control Financial Model) Special Condition [x] to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised IRM values in respect of the next Annual Iteration Process.

## Part H: Interpretation

- 9.25 For the purposes of this condition, the following definitions apply:

**Carbon Benefits** means a contribution to the Government’s current strategy for reducing greenhouse gas emissions, as set out in the document entitled the “Carbon Plan” published by the Department of Energy and Climate Change;

**Innovation** means any or all of the following:

- (a) a specific piece of New Network Equipment;
- (b) a novel arrangement or application of new or existing Network Equipment;
- (c) a novel operational practice;
- (d) or a novel commercial arrangement,

that is not, or is not within the scope of, an

	Ordinary Business Arrangement;
Innovation Roll-out Costs	means the proposed cost of Rolling out a Proven Innovation;
New Network Equipment	means any new asset that does not yet form part of the licensee's Transmission System or control centre for use in conjunction therewith;
Network Equipment	means any asset that for the time being forms part of the licensee's Transmission System and any control centre for use in conjunction therewith;
Ordinary Business Arrangement	means any or all of the following: <ul style="list-style-type: none"> <li>(a) a specific piece of existing Network Equipment;</li> <li>(b) an arrangement or application of existing Network Equipment;</li> <li>(c) an operational practice; or</li> <li>(d) a commercial arrangement,</li> </ul> that is being used or is capable of being used, without modification, by the licensee or another Transmission Owner at the start of the Price Control Period;
PCFM Variable Value	means a value held in the PCFM Variable Values Table for the licensee contained in the T1 Price Control Financial Model: <ul style="list-style-type: none"> <li>(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition ; and</li> <li>(b) whose revision does not constitute a modification of the T1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).</li> </ul>
Price Control Period	means the period of eight Relevant Years beginning on 1 April 2013 and ending on 31 March 2021 during which, subject to [ETC29] Special Condition XX (Disapplication), the Special Conditions will have effect in this licence;
Proven Innovation	means an Innovation which the Transmission Owner can demonstrate has been successfully trialled or demonstrated either on the pipe-line

system to which this licence relates or elsewhere;

Relevant Adjustment	has the meaning given to it in paragraph 9.9 of this condition;
Relevant Year t	means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in (ETC20) Part [C] of Special Condition (Restriction of Transmission Network Revenue) and references to Relevant Year t-1 are to be construed accordingly; and
Roll-out	means the incorporation of a Proven Innovation into an Ordinary Business Arrangement.

#### APPENDIX 1: Totex Incentive Strength Rate

Licensee	Totex Incentive Strength Rate (%)
XXX	XXX
XXX	XXX
XXXX	XXX

#### APPENDIX 2: Materiality threshold amount

(see the AFR term under Part C of this condition)

Licensee	£m
XXX	XXX
XXX	XXX
XXXX	XXX

## **[ETC39] Special Condition [x]. Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure**

### **Introduction**

39.1. The purposes of this condition are:

- (a) to specify the Baseline and Strategic Wider Works Outputs the licensee shall deliver during the Price Control Period and the allowed expenditure associated with those outputs; and
- (b) to determine and direct any appropriate revisions to PCFM Variable Values relating to Wider Works allowed expenditure (WWE values) and the Relevant Years to which those revised WWE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

39.2. The WWE value relating to a particular Relevant Year, represents the total amount of allowed expenditure (in 2009/10 prices) for Wider Works Outputs for that Relevant Year as determined in accordance with this condition.

39.3. The application of the mechanisms set out in this condition provides for:

- (a) the specification of Baseline Wider Works Outputs;
- (b) the approval and specification of Strategic Wider Works Outputs;
- (c) the amendment of Baseline and Strategic Wider Works Outputs in the context of an Output Amendment for Changes in System Background;
- (d) the approval of changes to allowed expenditure in respect of Wider Works Outputs for particular Relevant Years in the context of an Cost and Output Adjusting Event;
- (e) the determination and direction of revised WWE values to reflect changes to allowed expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year  $t$  for the purposes of Part C of Special Condition [ETC20] (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Network Revenue (whether upwards or downwards) in a manner that:
  - (i) reflects approved changes to allowed expenditure for Wider Works Outputs specified in this condition, and
  - (ii) takes account of approved changes to allowed expenditure for Wider Works Outputs specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [x] of [ETC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner) and

in accordance with the methodology set out in Chapter [x] of the ET1 Price Control Financial Handbook.

- (f) This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

**Part A: Specification of Baseline Wider Works and Strategic Wider Works Outputs**

39.4. Table 1 sets out details of the Baseline Wider Works Outputs the licensee is required to deliver during the Price Control Period that were specified at the start of the Price Control Period.

39.5. The allowed expenditure figures set out in Table 1 have been reflected in:

- (a) the licensee's opening base revenue allowances, set against the licensee's name in Appendix 1 to [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue); and
- (b) WWE values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

**Table 1: Baseline wider works outputs specified at start of RIIO-T1**

Description of output	Scheduled delivery date	Annual expenditure profile £m (2009/10 prices)								
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/2020	2020/21	Total
Boundary (Sub-boundary): Transfer capability before output: XXXMW Output to be delivered: XXXMW additional thermal/voltage/stability capability Transfer capability after output: XXXMW	QX 201X/1X	XX.X								
<b>Total annual allowed expenditure £m (2009/2010 prices)</b>										

- 39.6. During the Price Control Period the licensee can request that the Authority approve expenditure for Strategic Wider Works outputs. These are additional to the Baseline Wider Works Outputs specified in Table 1 above.
- 39.7. The Authority may approve Strategic Wider Works outputs and allowed expenditure amounts pursuant to the provisions of Part F of this condition. All Strategic Wider Works Outputs approved by the Authority including those approved after 1 April 2013 under this condition will be specified in Table 2 below.

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**Table 2: Strategic Wider Works Outputs approved during RIIO-T1**

Description of output	Scheduled delivery date	Annual expenditure profile £m (2009/10 prices)								
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/2020	2020/21	Total
Boundary (Sub-boundary): Transfer capability before output: XXXMW Output to be delivered: XXXMW additional thermal/voltage/stability capability Transfer capability after output: XXXMW	QX 201X/1X	XX.X								
<b>Total annual allowed expenditure £m (2009/2010 prices)</b>										



39.8. The licensee will report annually to the Authority on progress made in delivering the outputs specified in Table 1 and Table 2 along with information on its actual expenditure incurred under the regulatory instructions and guidance issued in accordance with standard condition [ETC74] Regulatory Instructions and Guidance.

### **Part B: Cost and Output Adjusting Events**

39.9. **For SHETL:** This part (which should be read in conjunction with Part C) provides for a Cost and Output Adjusting Event (COAE) to have effect in relation to Strategic Wider Works Outputs specified in Table 2 in Part A of this condition.

39.10. **For SPTL:** This Part (which should be read in conjunction with Part C) provides for a Cost and Output Adjusting Event (COAE) to have effect in relation to the Baseline Wider Works Output associated with the Western HVDC Link (referred to below as ‘WHVDC baseline output’) specified in Table 1, and all Strategic Wider Works Outputs specified in Table 2 in Part A of this condition.

39.11. **For all:** For the purposes of this condition, a COAE arises where the Authority is satisfied that:

(a) a pre-defined exceptional event has occurred that the licensee could not have reasonably foreseen and/or efficiently planned a contingency for;

(b) **For SHETL:** the pre-defined exceptional event has directly resulted in a change to the scope of construction works and will cause expenditure relative to the allowed expenditure specified in Table 2 for a Strategic Wider Works Output to be incurred or saved and that the difference before the totex efficiency incentive will be no less than:

(i) 20% for a Strategic Wider Works Output where the total allowed expenditure is less than £500 million over the period 2013/14 to 2020/21; or

(ii) 10% in the case of the Western Isles link or where the total allowed expenditure for a Strategic Wider Works Output is greater than £500 million over the period 2013/14 to 2020/21;

(b) **For SPTL and NGET:** the pre-defined exceptional event has directly resulted in a change to the scope of construction works and will cause expenditure relative to the allowed expenditure specified in Part A for the WHVDC baseline output or a Strategic Wider Works Output to be incurred or saved and that the difference before the totex efficiency incentive will be no less than:

(i) 20% for a Strategic Wider Works Output; or

(ii) 10% in the case of the WHVDC baseline output; [placeholder]

(c) For all: the difference in expenditure:

(i) is expected to be efficiently incurred or saved; and

(ii) cannot otherwise be recovered under the revenue allowances provided by this condition or by or under any other provision within this licence.

- (d) **For SHETL:** and/or the pre-defined exceptional event has delayed progress on a Strategic Wider Works Output and as a result the expected completion date is outside the agreed financial year for the scheduled delivery date.

39.12. **For SHETL:** In paragraph 39.11, “a pre-defined exceptional event” is limited to the following:

- (a) Extreme weather events (worse than 1 in 10 for land-based activity, equivalent provisions for marine-based activity);
- (b) The imposition of additional terms or conditions of any statutory consent, approval or permission (including but not limited to planning consent);
- (c) Movement of agreed outages by the SO; or
- (d) Changes in the project scope that could not have been anticipated during the assessment process.

39.13. **For SPTL and NGET:** In paragraph 39.11, “a pre-defined exceptional event” is limited to the following:

- (a) Extreme weather events (worse than 1 in 10 for land-based activity, equivalent provisions for marine-based activity);
- (b) The imposition of additional terms or conditions of any statutory consent, approval or permission (including but not limited to planning consent);
- (c) Unforeseen ground or sea-bed conditions.

39.14. **For all:** In paragraph 39.11, “change to the scope of construction works” means a change that is necessary to the scope and/or scale of those works as a direct result of a single pre-defined exceptional event in respect of delivering a Strategic Wider Works Output specified in Table 2 above.

### **Part C: Assessment of Cost and Output Adjusting Events**

39.15. This Part C sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a COAE has occurred; and, if so,
- (b) to determine the adjustment that is to be made because of the event described in paragraph 39.15(a).

### **Licensee’s notice to the Authority**

39.16. Where the licensee considers, and can provide supporting evidence, that a COAE has occurred in relation to a Strategic Wider Works Output specified in Part A of this condition, it must give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred, and in any event within three months after the end of the Relevant Year in which it occurred (or by such later date as the Authority may notify to the licensee).

39.17. Where relevant, a notice under paragraph 39.16 must:

- (a) set out the reasons for the request, along with a description of the pre-defined exceptional event specified in Part B to which the notice relates and why the licensee considers it to be a COAE;

- (b) describe progress made in relation to its original project plans for the delivery of the Strategic Wider Works output as specified in Part A;
- (c) describe the requested changes in Part A and where appropriate to Table 3 in Part G;
- (d) specify the costs that the licensee expects to be incurred or saved by that event, and explain how the amount of those costs has been calculated including relevant evidence on the change of scope of the construction works;
- (e) provide revised project development plans, design works, forecast costs, costs breakdowns, annual expenditure profiles, and the construction programme;
- (f) specify whether the licensee expects the event to have an impact on timeline for the delivery of the Strategic Wider Works output and explain what actions it has or will take to mitigate the impact of the event on the scheduled delivery date;
- (g) specify any other modifications to the output specified in Part A that the licensee considers necessary as a consequence of the event, and explain how these amendments have been calculated;
- (h) describe why the licensee considers that the relevant costs cannot otherwise be recovered under the revenue allowances provided by this condition or any other provision of this licence;
- (i) confirm that none of the costs that are the subject of the notice has been, or will be, notified to the Authority in relation to any other revenue recovery arrangements in this licence; and
- (j) any other analysis or information that the licensee considers may be relevant to the Authority's consideration of its request.

39.18. The notice must also contain or be accompanied by:

- (a) details of any relevant calculations of the licensee in which revised expenditure or output specifications has been estimated, and any relevant supporting information;
- (b) a statement procured from independent technical advisers that assess whether or not amendments in relation to the scope of the works, the costs and delivery timing fairly reflect the effects of the pre-defined event;
- (c) a statement about the impact of the adjustment proposed by the licensee on the output as specified in Part A; and
- (d) any other analysis or information that the licensee considers relevant to the Authority's assessment of the event.

### **Determination by the Authority**

39.19. Where the Authority receives notice from the licensee under paragraph 39.16, it will determine:

- (a) whether a COAE has occurred in relation to an output that is specified in Part A of this condition;

- (b) whether the output will remain economical and efficient as a consequence of the pre-defined exceptional event; and
- (c) subject to paragraph 39.20, the adjustment that is to be given effect through a modification under Part G of this condition in relation to the specified output.

39.20. Where the Authority determines under paragraph 39.19 that each of sub-paragraphs (a) and (b) is satisfied, the adjustment that it determines under sub-paragraph (c) must be such as to ensure that the financial position and performance of the licensee will, so far as is reasonably practicable, remain the same as if the Cost and Output adjusting event had not occurred.

### **Revocation**

39.21. The Authority may, with the consent of the Licensee, revoke a determination made under paragraph 39.19.

### **Part D: Baseline and Strategic Wider Works Output Amendments for Changes in System Background**

39.22. This part (which should be read in conjunction with Part E) provides for an Output Amendment (OA) to have effect in relation to Baseline and Strategic Wider Works Outputs specified in Part A of this condition.

39.23. For the purposes of this condition, an OA arises where the Authority is satisfied that:

- (a) there have been changes in the system background compared with the assumptions used initially to model and specify a Baseline or Strategic Wider Works Output in Part A.
- (b) the developments in the system background will directly result in a difference between the capacity increase of the Baseline or Strategic Wider Works Output specified in Part A that the licensee has undertaken to deliver and the achievable capacity increase; and
- (c) amending the Baseline or Strategic Wider Works Output with the revised capacity increase based on the new information about the system background has no implications for the allowed expenditure specified in Part A for that output.

39.24. In paragraph 39.23, “changes in the system background” means an unforeseen change in the generation and demand background within the boundary that the Baseline or Strategic Wider Works Output is to be delivered or in adjacent boundaries or zones and “system background” should be construed accordingly.

### **Part E: Assessment of Wider Works Outputs Amendments for Changes in the System Background**

39.25. This Part E sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a Baseline and Strategic Wider Works Outputs specified in Part A of this condition requires an OA (within the meaning of Part D) as a direct result of changes in the system background; and, if so,

- (b) to determine the OA to the Baseline or Strategic Wider Works Output that is to be made because of the changes in the system background

### **Licensee's notice to the Authority**

39.26. Where the licensee considers, and can provide supporting evidence, that changes in the system background compared with the initial assumptions used to specify a Baseline or Strategic Wider Works Output in Part A has had an impact on the capacity increase of a Baseline or Strategic Wider Works Output it has undertaken to deliver can be achieved it must give notice to the Authority as soon as is reasonably practicable, and in any event within three months after the end of the Relevant Year in which the Baseline or Strategic Wider Works Output was delivered (or by such later date as the Authority may notify to the licensee).

39.27. A notice under paragraph 39.26 must include:

- (a) a description of the Baseline or Strategic Wider Works Outputs in Part A;
- (b) a progress report in relation to delivery of the Baseline or Strategic Wider Works Outputs as specified in Part A;
- (c) the reasons for the request, along with relevant supporting evidence of the changes in the system background defined in Part D to which the notice relates and why the licensee considers it has directly resulted in a difference between the achievable capacity increase and the required capacity increase of the Baseline or Strategic Wider Works specified in Part A;
- (d) specify that an amendment to the Baseline or Strategic Wider Works Output in Part A based on the revised system background would not have implications for the allowed expenditure for delivering that output.

39.28. The notice must also contain or be accompanied by:

- (a) a statement about whether the amendment to the Baseline or Baseline or Strategic Wider Works Output proposed by the licensee has any implications for other Baseline or Baseline or Strategic Wider Works Outputs specified in Part A; and
- (b) any other analysis or information that the licensee considers relevant to the Authority's assessment of the event.

### **Determination by the Authority**

39.29. Where the Authority receives notice from the licensee under paragraph 39.27, it will determine:

- (a) whether an amendment to any Baseline or Strategic Wider Works Output that is specified in Part A of this condition is warranted as a direct result of changes in the system background; and
- (b) the adjustment that is to be given effect through a modification under Part F of this condition in relation to such Baseline or Strategic Wider Works Outputs.

### **Revocation**

39.30. The Authority may, with the consent of the licensee, revoke a determination made under paragraph 39.29.

### **Part F: Modification to amend the details of existing Baseline or Strategic Wider Works Outputs or to approve additional Strategic Wider Works Outputs**

39.31. The Authority may direct modifications to Table 1 and Table 2 in Part A and, where applicable to Table 3 in Part G of this condition in order to:

- (a) amend the details of Baseline Wider Works Outputs or Strategic Wider Works Output specified in that Part A; or
- (b) to add details, including the amount of allowed expenditure, of new Strategic Wider Works Outputs for inclusion in Table 2 in Part A and Table 3 in Part G through the provisions of this Part F.

39.32. The reason for modifying details of outputs referred to in paragraph 39.31(a) may arise from:

- (a) a Cost and Output Adjusting Event defined in Part B and determined by the Authority in accordance with Part C; or
- (b) an Output Amendment defined in Part D and determined by the Authority in accordance with Part E.

39.33. A direction issued by the Authority under paragraph 39.31 is of no effect unless the Authority has first:

- (c) given Notice to interested parties that it proposes to issue a direction under paragraph 39.31:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) specifying, where appropriate, any output and/or allowed expenditure adjustments that have been determined in accordance with Part C, Part E and Part F of this condition; and
  - (iii) specifying the time (which must not be less than a period of 28 days within which representations concerning the proposed direction may be made; and
  - (iv) considered any representations in response to the Notice that are duly made and not withdrawn.

### **Licensee's notice to the Authority in respect of new Strategic Wider Works Outputs**

39.34. The licensee may ask the Authority to direct modifications under paragraph 39.31(b) by giving notice of its request to the Authority in such form as the Authority may from time to time require.

39.35. A notice under paragraph 39.34 must contain:

- (a) a description of the proposed Strategic Wider Works output, including evidence that the proposed output meets the materiality criteria set by the licensee;

- (b) the reasons for the request, including the associated needs case and cost-benefit analysis for the Strategic Wider Works output and delivery timescales;
- (c) a specification of the potential risks associated with delivery and ongoing operation of the proposed Strategic Wider Works Output as well as relevant supporting information on the licensee's risk management strategy and the efficiency of its risk sharing arrangements with consumers;
- (d) a description of the licensee's delivery plans including a project assessment timeline, project development plans, planning consent details and status, details of the construction programme, and a scheduled completion date.
- (e) evidence of efficient costs including information on detailed design works, the licensee's supplier procurement and tender procedures, forecast costs on a year by year basis, and a breakdown of the forecast costs;
- (f) a description of the new strategic wider works output in the form set out in Part A; and
- (g) any other analysis or information that the licensee considers may be relevant to the Authority's consideration of its request.

### **Determination by the Authority**

39.36. Where the Authority receives notice from the licensee under paragraph 39.34 in relation to an additional Strategic Wider Works Output, it will determine:

- (a) whether the needs case, technical scope and timing of delivery are sufficiently well justified and represent long term value for money for existing and future consumers;
- (b) whether the licensee has developed a sufficiently robust development plan and risk sharing arrangements to deliver the output efficiently;
- (c) whether there is a sufficiently advanced technical option(s) for the Authority to assess efficient costs and specify a Strategic Wider Works Output; and if so
- (d) the adjustment that is to be given effect through a modification under this Part F.

### **Revocation**

39.37. The Authority may, with the consent of the licensee, revoke a determination made under paragraph 39.36.

### **Part G: Determination of revisions to WWE values**

39.38. This part sets out the process for issuing revisions to WWE values for use in the Annual Iteration Process for the ET1 Price Control Financial Model.

39.39. Table 3 below sets out the amounts of allowed expenditure for each Wider Works Output after any modifications directed under Part F of this condition and the total of those amounts for each Relevant Year of the price control period.

### **Table 3: Allowed expenditure after modifications under Part F for Baseline and Strategic Wider Works Outputs**

Allowed expenditure (£m 2009/10 prices)	Relevant Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Wider Works Output								
XXXMW additional transfer capability on boundary Y	xxx	xxx	xxx	xxx	xxx	xxx		
Etc	xxx	xxx	xxx	xxx	xxx	xxx		
Total								

39.40. The Authority shall, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter check whether the WWE value for any Relevant Year is different from the allowed expenditure total for the corresponding Relevant Year set out in Table 3 and, in any case where it is different, the Authority shall:

- (a) determine that the WWE value for the Relevant Year concerned is to be revised so as to be the same as the allowed expenditure total in Table 3; and
- (b) issue a direction, in accordance with the provisions of Part H of this condition specifying any revised WWE values determined under sub-paragraph (a) and the relevant years to which they relate.

**Part H: Procedure for direction of revised WWE values by the Authority**

39.41. Any revised WWE values determined by the Authority in accordance with Part H of this condition will be directed by the Authority by 30 November or as soon as reasonably practicable thereafter in each Relevant Year t-1.

39.42. A direction issued by the Authority under paragraph 39.40 shall be of no effect unless the Authority has first:

- (a) given Notice to interested parties that it proposes to issue a direction under paragraph 39.40:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) stating, where appropriate, that any WWE values have been determined in accordance with Part D and G of this condition (as appropriate); and



- (iii) specifying the time (which must not be less than a period of 28 days) within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

39.43. Where the Authority directs any revised WWE values relating to Relevant Years which are earlier than Relevant Year t (following the date of the direction), the effect of using those revised WWE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.

39.44. If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised WWE values by 30 November, then no revised WWE values will be used in the Annual Iteration Process that is required by [ETC26] Special Condition [x] to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised WWE values in respect of the next Annual Iteration Process.

**Part J: Interpretation**

39.45. For the purposes of this condition:

Wider Works’ means reinforcements of the GB electricity system that result in increases of transmission capacity, or boundary transfer capability on the main interconnected transmission system (MITS), including work to attain compliance with the National Electricity Transmission System Security and Quality of Supply Standards (NETS SQSS).

Baseline Wider Works Output’ means Wider Works that the licensee is required to deliver in its licence area during the Price Control Period and that are funded through Base Transmission Network Revenues.

Strategic Wider Works (SWW)Output’ means Wider Works that the licensee may be required to deliver if the Authority approves the investment case during the Price Control Period.

Relevant Year t’ means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part [x] of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue)and references to Relevant Year t-1 are to be construed accordingly.

Delivery/delivered means the second stage electrical commissioning of the reinforcement works on the licensee’s transmission system.

PCFM Variable Value’ means a value held in a PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and

- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

DRAFT

## **[ETC 55] Special Condition [x] Baseline generation connection outputs and generation connections volume driver [SPTL version]**

### **Introduction**

55.1 The purposes of this condition are:

- (a) to specify the basis on which the licensee's levels of allowed expenditure on attributable sole-use and shared-use enabling works (together 'Generation Connections') are to be determined; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the constituents of Generation Connections allowed expenditure ('GCE' values) and the Relevant Years to which those revised GCE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

[This condition sets out the basis of calculating adjustments to Totex allowances arising from connections works above those identified in the baseline. In every year of iteration of the financial model (denoted year t-1), it seeks to specify the total variance in allowance for each Relevant Year k up to the latest reported (year t-2). The entire vector of allowances is potentially rewritten (subject to Authority: Para.11), changes being made retrospectively to allowances in the year of performance, not the year of reporting. This is consistent with our understanding of the operation of the PCFM. This interaction is critical to the proper operation of this condition. (note that while this condition will define inputs which affect MOD in year t, only variances up to and including year t-2 will be specified)]

55.2 The 'GCE values' relating to a particular Relevant Year, represents the total amount of allowed expenditure (in 2009/10 prices) for all generation connections the licensee has delivered for that Relevant Year. There are four constituent 'GCE values' in each Relevant Year, identified and defined in Paragraph 6. The GCE values as at 1 April 2013 are the approved allowances included in the price control for the Price Control Period.

### **Part A: Application of the mechanisms in this condition**

55.3 The application of the mechanisms set out in this condition provides for:

- (a) the determination of allowed expenditure amounts for Generation Connections for particular Relevant Years which reflect the additional MW capacity of Generation Connections delivered in the Relevant Years concerned; and
- (b) the direction of revised GCE values to reflect changes to allowed expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that:
  - (i) reflects allowed expenditure amounts determined under Part B of this condition; and

- (ii) takes account of allowed expenditure on connecting generating stations for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [x] of [ETC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter [x] of the ET1 Price Control Financial Handbook.

55.4 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

**Part B: Determination of the value of allowed expenditure for Generation Connections and determination of revisions to GCE values**

55.5 For the purposes of paragraph 1, GCE for Relevant Year k is to be derived in accordance with the following formula (in this condition, “the Principal Formula”):

$$GCE_k = BSUE_k + VSUE_k + BSHE_k + VSHE_k$$

where:

$BSUE_k$  is the allowed baseline expenditure in year k expressed in 2009/10 prices, for sole-use enabling works to accommodate new or additional generation capacity as set out in table 1.

$BSHE_k$  is the allowed baseline expenditure in year k expressed in 2009/10 prices, for shared-use enabling works to accommodate new or additional generation capacity as set out in table 2.

$VSUE_k$  is the allowed variant expenditure in year k expressed in 2009/10 prices, for attributable sole-use enabling works to accommodate new or additional generation capacity calculated in accordance with paragraph 7 this condition.

$VSHE_k$  is the allowed variant expenditure in year k expressed in 2009/10 prices, for attributable shared-use enabling works to accommodate new or additional generation capacity calculated in accordance with paragraph 8 of this condition.

55.6 For the purposes of the Principal Formula, the value of  $VSUE_k$  for Relevant Year k is to be derived in accordance with the following formula:

- (a) if  $RG_k \leq 2,503MW$  and  $k < 8$  then:

$$VSUE_k = 0$$

- (b) if  $RG_k > 2,503MW$  then:

$$VSUE_k = (RG_k - \max(2503, RG_{k-1})) \times \text{SoleUCA}_k \times 0.01 + \text{COM}_k$$

Otherwise:

$$VSUE_k = (RG_k - 2503) \times \text{SoleUCA}_k$$

where:

$RG_k$  means the Relevant Generation Capacity as at 31 March of Relevant Year k as reported by the licensee in accordance with the Price Control Reporting RIGs.

$BSUE_k$  means the licensee's baseline allowed expenditure for sole use enabling works for Relevant Year k as set out in the following table.

$COM_k$  means the cumulative operation and maintenance allowance for generation connections works delivered above the threshold and is calculated in accordance with paragraph 8 below.

£m	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21

$SoleUCA_k$  is the allowed expenditure per MW of relevant generation capacity, adjusted for real price effects of 1.5%, expressed in 2009/10 prices, for sole-use enabling works and is derived from the following formula.

$$SoleUCA_k = £43,000 \times (1+0.015)^n$$

$N$  means the number of completed Relevant Years and in 2013/14 shall have a value of 1.

55.7 The following formula is to be used to derive the  $COM_k$  term:

If  $RG_k > 2503$  then:

$$COM_k = OM_k + OM_{k-1} + \dots + OM_{k-n}$$

where

$$OM_k = (RG_k - \max(RG_{k-1}, 2503) \times SoleUCA_k) \times 0.01$$

55.8 For the purposes of the Principal Formula, the value of  $VSHE_k$  in Relevant Year k is derived in accordance with the following formula:

$$VSHE_k = \sum_c (SHRD_{c,k} \times DFlag_c)$$

where:

$SHRD_{c,k}$  Is the Shared Revenue Driver Composite Cost for project c (comprising asset quantities n,m,l from each category table) for year k derived from the following formula:

$$\text{SHRD}_{c,k} = \sum_{n=1}^5 (\text{QSS}_{c,k,n} \times \text{USS}_n) + \sum_{m=1}^4 (\text{QOL}_{c,k,m} \times \text{UOL}_m) + \sum_{l=1}^3 (\text{QCW}_{c,k,l} \times \text{UCW}_l)$$

- DFlag<sub>c</sub> (a) If  $\text{NAR}_k \leq 1,096\text{MW}$  then  $\text{DFlag}_c = 0$  for all projects commissioned in year k.
- (b) If  $\text{NAR}_k > 1,096\text{MW}$  then DFlag<sub>c</sub> is derived from the following formula:

$$\frac{\text{NAR}_k - \max(1096, \text{NAR}_{k-1})}{\text{NAR}_k - \text{NAR}_{k-1}}$$

for all projects c commissioned in Relevant Year k.

[If  $\text{NAR}_k = \text{NAR}_{k-1}$  then nothing was commissioned in k so divide by zero isn't a problem]

where:

$\text{NAR}_k$  means the relevant installed capacity in MVA delivered by shared-use enabling works projects as at 31 March of Relevant Year k as reported by the licensee in accordance with the Price Control Reporting RIGs.

$\text{BSHE}_k$  means the licensee's baseline allowed expenditure, in 2009/10 prices, for shared use connections for Relevant Year k as set out in the following table:

£m	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21

$\text{QSS}_{n,k}$  means the quantity of Substation Works commissioned in respect of type and capacity n and Relevant Year k for shared-use enabling works, where capacity and type are set out in table 2:

$\text{USS}_{n,k}$  means the specific matrix costs in respect of Substation type and capacity n and Relevant Year k for the licensee's Transmission System, as set

out in Table 2.

**Table 2: Substation works and unit costs**

Type and capacity n	Substation Works	Unit costs £000s (2009/10 prices)
1	400kV/132kV substation	23,412
2	275kV/33kV substation transformer feeder	8,005
3	275kV/33kV substation single switch	8,459
4	132kV/33kV substation transformer feeder	6,297
5	132kV/33kV substation single switch	6,541

$QOL_{m,k}$

means the quantity of Overhead Line delivered by the licensee in respect of length and capacity m and Relevant Year k for shared-use enabling works, where length and capacity are defined in table 3.

$UOL_{m,k}$

means the specific matrix costs in respect of Overhead Line length and capacity m and Relevant Year k for shared-use enabling works, as set out in Table 3.

**Table 3: Overhead line capacities, adjustments and unit costs**

Length and capacity m	Overhead line	Unit costs £000s (2009/10 prices)
1	275kV/400kV L8 construction - 20km	25,450
2	L8 adjustment per km (+/-) on 20km cost	1,022
3	132kV/33kV L7 construction - 20km	20,180
4	L7 adjustment per km (+/-) on 20km cost	761
5		936

Note: Rows 2 and 4 in Table 2 represent the unit cost adjustment for variances in cable length (expressed in km) around the relevant 20km unit costs in rows 1 and 3.

For example, the cost for 17km of 275kV/400kV construction (in £000) would be  $1 * 25450 + (17-20) * 1022 = 22384$ . Here  $QOL_{1,t} = 1$  and  $QOL_{2,t} = -3$

$QCW_{l,k}$  means the quantity of Civil Works commissioned in respect of type l and Relevant Year k for shared-use enabling works, where type are set out in Table 4.

$UCW_{l,k}$  means the specific matrix costs in respect of Civil Works type l and Relevant Year k for the licensee's Transmission System, as set out in Table 4.

**Table 4: Civil works and unit costs**

Type l	Civil works	Unit costs £000s (2009/10 prices)
1	Removal and processing/disposal of rock per m3	0.119
2	Removal and off-site disposal of peat per m3	0.055
3	Haulage road construction per km	119

55.9 The licensee will report annually on relevant generation connections and relevant installed asset rating completed and commissioned after 31 March 2013 and on its actual expenditure incurred in accordance with standard condition [ETC74] Regulatory Instructions and Guidance.

55.10 The Authority shall, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part C of this condition, specifying the revised GCE values for Relevant Year k = t-2.

55.11 The Authority may also revise the GCE value for a Relevant Year or Years k earlier than Relevant Year t-2 ('earlier Relevant Years'), notwithstanding that the GCE values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the terms  $VSUE_k$ , or She in respect of the earlier Relevant Years or to correct errors in relation to those values;
- (b) the revised GCE value for the earlier Relevant Years is calculated in accordance with the formula set out in Part B; and
- (c) the revised GCE value for the earlier Relevant Years is specified in a direction issued in accordance with the provisions of Part C of this condition.



## **Part C: Procedure for direction of revised GCE values by the Authority**

- 55.12 Any revised GCE values determined by the Authority in accordance with Part B of this condition will be directed by the Authority by 30 November in each Relevant Year t-1 or as soon as reasonably practicable thereafter.
- 55.13 A direction issued by the Authority under paragraph 12 is of no effect unless the Authority has first:
- (a) given notice to interested parties that it proposes to issue a direction under paragraph 12:
    - (i) specifying the date on which it proposes that the direction should take effect;
    - (ii) stating, where appropriate, that any GCE values have been determined in accordance with Part B of this condition; and
    - (iii) specifying the time (which must not be less than a period of 28 days) within which representations concerning the proposed direction may be made; and
  - (b) considered any representations in response to the notice that are duly made and not withdrawn.
- 55.14 Where the Authority directs any revised GCE values for ‘earlier Relevant Years’ under paragraph 11 in Part B of this condition, the effect of using those revised GCE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.
- 55.15 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised GCE values by 30 November, or as soon as reasonably practicable thereafter, then no revised GCE values will be used in the Annual Iteration Process that is required by [ETC26] Special Condition [x] to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised GCE values in respect of the next Annual Iteration Process.

## **Part D: Definitions and interpretation**

- 55.16 For the purposes of this condition:

Enabling Works’	means the infrastructure works which are needed to connect a generating station or multiple generating stations to the licensee’s transmission system.
Attributable sole-use Enabling Works’	means enabling works associated with the connection of new or additional generation capacity from a single generating station to a part of the licensee’s transmission system (or connected to a distribution system which in turn

	connects to a part of the licensee's transmission system) as specified in relevant agreements between the licensee and the system operator pursuant to the STC, where construction of those works takes place (in whole or in part) after 31 March 2013.
Attributable shared-use Enabling Works'	means works associated with the connection of more than one new or additional generating station to a part of the licensee's transmission system (or connected to a distribution system which in turn connects to a part of the licensee's transmission system) as specified in relevant agreements between the licensee and the system operator pursuant to the STC, where construction of those works takes place (in whole or in part) after 31 March 2013.
Relevant Generation Capacity'	means the cumulative amount of generation connection capacity connected to a part of the licensee's transmission system or connected to a distribution system which in turn connects directly to a part of the licensee's transmission system for which attributable sole-use enabling works are completed and commissioned (in accordance with the STC) after 31 March 2013.
Relevant Installed Asset Rating'	means the cumulative amount of installed asset rating capacity to accommodate generation connections to a part of the licensee's transmission system or connected to a distribution system which in turn connects directly to a part of the licensee's transmission system for which attributable Shared-use Enabling works are completed and commissioned (in accordance with the STC) after 31 March 2013.
Relevant Year t'	means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part [x] of [ETC 20] Special Condition (Restriction of Transmission Network Revenue) and references to Relevant Year t-1 are to be construed accordingly.
Delivered	means the second stage electrical commissioning of attributable sole-use or shared-use enabling works.
PCFM Variable Value'	means a value held in a PCFM Variable Values Table for the licensee contained in ET1 Price Control Financial Model: <ul style="list-style-type: none"> <li>(a) which is capable of being revised</li> </ul>

by a direction of the Authority following a determination under a relevant Special Condition ; and

- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

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**[ETC 55] Special Condition [x] Baseline generation connection outputs and generation connections volume driver [SHETL version]**

Being developed.

**[ETC 55] Special Condition [x] Baseline generation connection outputs and generation connections volume driver [NGET version]**

Being developed.

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## **[ETC 18] Special Condition [x]. Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty**

### **Introduction**

18.1 The purposes of this condition are:

- (a) to specify the Enhancements to Pre-existing Infrastructure (EPI) Outputs the Licensee must deliver during the Price Control Period and the allowed expenditure associated with those EPI Outputs; and
- (b) to determine any revisions to the PCFM Variable Values relating to EPI Allowed Expenditure ('EPIE' values) and the Relevant Years to which those revised EPIE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

18.2 The EPIE value relating to a particular Relevant Year represents the total amount of allowed expenditure (in 2009/10 prices) for EPI Outputs for that Relevant Year as determined in accordance with this condition.

### **Part A: Application of the mechanisms in this condition**

18.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of EPI Outputs (Parts B and C);
- (b) a modification mechanism (Part D); and
- (c) the determination and direction by the Authority of revised EPIE values to reflect changes to the allowed expenditure so that, as a consequence of the Annual Iteration Process, the value of the MOD term as calculated for Relevant Year  $t$  for the purposes of Part C of Special Condition [ETC20] (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Network Revenue in a manner that:
  - (i) reflects approved changes to allowed expenditure for EPI Outputs specified in this condition; and
  - (ii) takes account of approved changes to allowed expenditure for Enhancement to Pre-existing Infrastructure Outputs specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [x] of [ETC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter [x] of the ET1 Price Control Financial Handbook.

- 18.4 This condition should be read and construed in conjunction with, [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

**Part B: EPI Outputs**

- 18.5 Table 1 sets out the details of the EPI Outputs the licensee shall deliver during the Price Control Period.

**Table 1: EPI Outputs**

Designated area	Description of mitigation	Commissioning date

- 18.6 The licensee must report annually on progress in delivering the EPI Outputs and its actual expenditure incurred to the Authority in accordance with the provisions of ETC74 Regulatory Instructions and Guidance.
- 18.7 Where the licensee has not delivered or has only partially delivered an EPI Output set out in Table 1, the Authority shall, in calculating values for EPIE, adjust allowed expenditure in relation to the EPI Output to ensure only efficiently incurred costs are recovered.

**Part C: Enhancements to Pre-existing Infrastructure Policy**

- 18.8 Before requesting the Authority to specify EPI Outputs in Table 1 under the provisions of Part D the licensee shall submit to the Authority an Enhancing Pre-existing Infrastructure Policy (“the Policy”).
- 18.9 The licensee must set out in the Policy the objectives it will seek to pursue and the methodology it will use for identifying potential EPI Outputs on its transmission system. The Policy should include:
- (a) a classification and explanation of the EPI outputs that would result in a reduced impact of pre-existing transmission assets on the visual amenity of designated areas;
  - (b) an explanation of the tests or evaluation to be carried out before and after the EPI outputs are delivered to verify the reduction in the impact of assets forming part of the licensee’s transmission system on 1 April 2013 on the visual amenity of Designated Areas;
  - (c) the criteria the licensee will use to evaluate and prioritise EPI Outputs including, but not limited to, value for money, and contribution to sustainable development;

- (d) details of how the licensee will work with local communities and interested stakeholders to identify potential EPI Outputs; and
  - (e) how the licensee will keep the Policy so that it is up to date with industry best practice.
- 18.10 Unless the Authority otherwise directs within two months of the date of submission of the statement by the licensee in accordance with paragraph 12, the licensee must use reasonable endeavours to apply the methodology set out in that Policy.
- 18.11 Before revising the methodology set out in the Policy, the licensee must submit a copy of the proposed revisions to the Authority.
- 18.12 Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 15, the licensee must use reasonable endeavours to apply the methodology set out in the Policy revised in accordance with the revisions proposed to the Authority.

**Part D: Modification to specify Enhancement to Pre-existing Infrastructure Outputs**

- 18.13 The Authority may direct modifications to Table 1 in Part B and Table 2 in Part E, in order to include or modify EPI Outputs, in accordance with the provisions of this Part D.
- 18.14 A direction issued by the Authority under paragraph 18.14 is of no effect unless the Authority has first:
- (a) given notice to interested parties that it proposes to issue a direction under paragraph 18.14:
    - (i) specifying the date on which it proposes that the direction should take effect;
    - (ii) stating, where appropriate, that any output and/or allowed expenditure adjustments that have been determined in accordance with Part B and Part D of this condition;
    - (iii) provide an update on the remaining allowance available during the Price Control Period to fund EPI outputs; and
    - (iv) specifying the time (which must not be less than a period of 28 days) within which representations concerning the proposed direction may be made; and
  - (b) considered any representations in response to the notice that are duly made and not withdrawn.

**Licensee's notice to the Authority**

- 18.15 Subject to paragraph 18.12, the licensee may request the Authority to make modifications under paragraph 18.14 by giving notice of its request to the Authority in such form as the Authority may from time to time require.
- 18.16 A notice under paragraph 18.16 must contain:
- (a) a description of the proposed new EPI Output and the benefits it will deliver in relation to the reduction of impacts on the visual amenity of a designated area;

- (b) supporting evidence that the proposed EPI output has been developed in accordance with the Policy approved by the Authority in accordance with Part C of this condition;
- (c) details of the proposed new EPI output and the timescale for the delivery of the proposed output;
- (d) forecast costs to be incurred by the licensee in each Relevant Year in delivering the proposed new EPI output and a breakdown of the total forecast costs of that proposed EPI Output;
- (e) a description of the proposed EPI Output in the form set out in Table 1 in Part B; and
- (f) any other analysis or information that the Authority considers may be relevant to its consideration of the licensee's request.

### Determination by the Authority

18.17 Where the Authority receives a notice from the licensee under paragraph 18.16 in relation to an EPI output, it will determine:

- (a) whether the proposed EPI Output is compliant with the Policy approved by the Authority in accordance with Part C of this condition;
- (b) whether the proposed costs for delivery of the EPI output are economical and efficient;
- (c) whether there is sufficient funding available under the expenditure cap set out in Final Proposals; and if so
- (d) the adjustment that is to be given effect through a modification made in accordance with the provisions of this Part D.

### Revocation

18.18 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 18.18.

### Part E: Determination of revisions to EPIE values

18.19 This part sets out the basis for determining revisions to EPIE value for use in the Annual Iteration Process for the ET1 Price Control Financial Model.

18.20 Table 2 below sets out the amounts of allowed expenditure for EPI Outputs after any modifications directed under Part D of this condition for each Relevant Year of the price control.

**Table 2: Allowed Expenditure for EPI Outputs**

£m (2009/10 prices)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Sub total for licensee	xxx	xxx	xxx	xxx	xxx	xxx		



- 18.21 The Authority shall, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable, check whether the EPIE value for any Relevant Year is different from the licensee's allowed expenditure sub-total for the corresponding Relevant Year set out in Table 2 and, in any case where it is different, the Authority shall:
- (a) determine that the EPIE value for the Relevant Year concerned is to be revised so as to match the allowed expenditure total in Table 2; and
  - (b) issue a direction, in accordance with the provisions of Part F of this condition specifying any revised EPIE values determined under sub-paragraph (a) and the Relevant Years to which they relate.

#### **Part F: Procedure for direction of revised EPIE values by the Authority**

- 18.22 Any revised EPIE values determined by the Authority in accordance with Part E of this condition will be directed by the Authority by 30 November or as soon as reasonably practicable thereafter, in each Relevant Year t-1.
- 18.23 A direction issued by the Authority under paragraph 18.23 is of no effect unless the Authority has first:
- (a) given Notice to interested parties that it proposes to issue a direction under paragraph 18.23:
    - (i) specifying the date on which it proposes that the direction should take effect;
    - (ii) stating, where appropriate, that any revised EPIE values have been determined in accordance with Part E of this condition; and
    - (iii) specifying the time (which must not be less than a period of 28 days) within which representations concerning the proposed direction may be made; and
  - (b) considered any representations in response to the Notice that are duly made and not withdrawn.
- 18.24 Where the Authority directs any revised EPIE values relating to Relevant Years which are earlier than Relevant Year t, the effect of using those revised EPIE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.

#### **Part G: Definitions and interpretation**

- 18.25 For the purposes of this condition:

Enhancement to Pre-existing Infrastructure

means a reduction in the impact of the assets forming part of the licensee's transmission system on 1 April 2013 on the visual amenity of National Parks and Areas of Outstanding Natural Beauty

(“designated areas”) which meet the criteria set out in the licensee’s Enhancements to Pre-existing Infrastructure Policy prepared in accordance with Part C of this condition.

EPI Outputs

means those EPI outputs that are set out in Table 1 of Part B of this condition.

‘National Parks and Areas of Outstanding Natural Beauty’

mean areas that have a statutory designation as a National Park or Area of Outstanding Natural Beauty under the National Parks and Access to the Countryside Act 1949.

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## [ETC 28]Special Condition [x].Arrangements for the recovery of uncertain costs [NGET version]

### Introduction

28.1 The purpose of this condition is as follows:

- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of allowed expenditure ("relevant adjustments") in relation to the categories of costs set out in paragraph 28.4 (each "an uncertain cost category"); and
- (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

28.2 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue).

PCFM Variable Value means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification to the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

28.3 The application of the mechanisms set out in this condition means that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the licensee's Base Transmission Revenue (whether upwards or downwards) in a manner that takes account of the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph 28.4, determined under Part A of this condition for the

purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapter 6 and 7 of the ET1 Price Control Financial Handbook.

28.4 The uncertain cost categories referred to in paragraph 28.1 are:

(a) Enhanced Physical Site Security Costs.

28.5 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

### **Part A: Proposal and determination of relevant adjustments**

28.6 This part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

### **Proposal of relevant adjustments**

28.7 Subject to paragraph 28.10, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:

- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's opening base revenue allowance was derived;
- (b) takes account of any prior relevant adjustments determined under this condition;
- (c) in aggregate constitutes a material amount within the meaning of paragraph 28.8;
- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.

28.8 A material amount is an amount of change to allowed expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2.

28.9 A proposal made under paragraph 28.7 must include statements setting out:

- (a) the uncertain cost category to which the proposal relates;
- (b) the changes to the licensee's allowed expenditure levels that are proposed and the Relevant Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's allowed expenditure levels referred to in sub-paragraph (b).

### **Application windows for relevant adjustment proposals**

- 28.10 The licensee and the Authority may only propose relevant adjustments during the following application windows:
- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
  - (b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.
- 28.11 Relevant adjustments relating to any uncertain cost category may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 28.7 to 28.9.
- 28.12 Relevant adjustment proposals made outside the application windows set out in paragraph 28.10 will not be determined by the Authority under the provisions of this condition.

### **Authority's power to determine relevant adjustments**

- 28.13 Where a proposal has been duly made under paragraph 28.7, the Authority may, within four months after the close of the relevant application window, determine any relevant adjustments that are to be made to the licensee's allowed expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate.
- 28.14 In determining any relevant adjustment under paragraph 28.13, the Authority must:
- (a) consult with the licensee and other interested parties;
  - (b) have particular regard to the purposes of this condition;
  - (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.
- 28.15 A determination under paragraph 28.13 may confirm, reject, or vary the proposed relevant adjustment.
- 28.16 Without limiting the general effect of paragraph 28.15, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.
- 28.17 The Authority must notify the licensee of any determination made under paragraph 28.13 within 14 days of making the determination concerned.
- 28.18 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 28.7 within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the licensee for Relevant Years specified in the proposal, shall be deemed to have been made.

### **Part B: Determination of revisions to PCFM Variable Values**

- 28.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:
- (a) Enhanced Physical Site Security Costs (IAEES values).

- 28.20 The Authority shall determine whether any PCFM Variable Values should be revised by 30 November or as soon as reasonable practicable thereafter following the relevant application window for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.
- 28.21 Determinations under paragraph 28.20 are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.
- 28.22 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year  $t$  and, for the avoidance of doubt, shall not have any retrospective effect on a previously directed value of the term MOD.

**Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs**

- 28.23 Revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:
- (a) 30 November 2015 (or as soon as reasonable practicable thereafter), following the first application window; and
  - (b) 30 November 2018 (or as soon as reasonable practicable thereafter), following the second application window.
- 28.24 Before issuing any directions under paragraph 28.23, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 28.25 The notice referred to in paragraph 28.24 must:
- (a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised PCFM Variable Values.
- 28.26 The Authority shall have due regard to any representations or objections duly received under paragraph 28.25, and give reasons for its decisions in relation to them.
- 28.27 If, for any reason, the Authority does not make a direction required under paragraph 28.23 by the date specified in that paragraph, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph [26.10] of [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing a value for  $MOD_t$  under that paragraph.

**Part D: Interpretation**

- 28.28 For the purposes of this condition, the following definitions apply:

Enhanced Physical Site Security Costs	means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the
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Secretary of State to enhance the physical security of any of the sites within the licensee's Transmission System.

Totex Incentive Strength Rate means the incentive rate for the licensee set out in Appendix 1 to this condition.

28.29 Expressions defined in paragraph 28.28 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [ETC74] Special Condition [x] (Regulatory Instructions and Guidance).

#### **APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE**

**(see paragraph 28.8 of this condition)**

<b>Licensee</b>	<b>Totex Incentive Strength Rate</b>
National Grid Electricity Transmission	xxx

#### **APPENDIX 2: MATERIALITY THRESHOLD AMOUNT**

**(see paragraph 28.8 of this condition)**

<b>Licensee</b>	<b>£m (2009/10) prices</b>
National Grid Electricity Transmission	xxx

## **[ETC 28]Special Condition [x].Arrangements for the recovery of uncertain costs [SHETL version]**

### **Introduction**

28.1 The purpose of this condition is as follows:

- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of allowed expenditure ("relevant adjustments") in relation to the categories of costs set out in paragraph 28.4 (each "an uncertain cost category"); and
- (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

28.2 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue).

PCFM Variable Value means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification to the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

28.3 The application of the mechanisms set out in this condition means that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the licensee's Base Transmission Revenue (whether upwards or downwards) in a manner that takes account of the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph 28.4, determined under Part A of this condition for the



purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapter 6 and 7 of the ET1 Price Control Financial Handbook.

28.4 The uncertain cost categories referred to in paragraph 28.1 are:

- (a) Enhanced Physical Site Security Costs;
- (b) BT 21st Century Costs; and
- (c) Compensation Costs for Landowners for Way leave.

28.5 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

#### **Part A: Proposal and determination of relevant adjustments**

28.6 This part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

#### **Proposal of relevant adjustments**

28.7 Subject to paragraph 28.10, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:

- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's opening base revenue allowance was derived;
- (b) takes account of any prior relevant adjustments determined under this condition;
- (c) in aggregate constitutes a material amount within the meaning of paragraph 28.8;
- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.

28.8 A material amount is an amount of change to allowed expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2.

28.9 A proposal made under paragraph 28.7 must include statements setting out:

- (a) the uncertain cost category to which the proposal relates;
- (b) the changes to the licensee's allowed expenditure levels that are proposed and the Relevant Years to which those changes relate; and

- (c) the basis of calculation for the changes to the licensee's allowed expenditure levels referred to in sub-paragraph (b).

### **Application windows for relevant adjustment proposals**

- 28.10 The licensee and the Authority may only propose relevant adjustments during the following application windows:
- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
  - (b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.
- 28.11 Relevant adjustments relating to any uncertain cost category may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 28.7 to 28.9.
- 28.12 Relevant adjustment proposals made outside the application windows set out in paragraph 28.10 will not be determined by the Authority under the provisions of this condition.

### **Authority's power to determine relevant adjustments**

- 28.13 Where a proposal has been duly made under paragraph 28.7, the Authority may, within four months after the close of the relevant application window, determine any relevant adjustments that are to be made to the licensee's allowed expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate.
- 28.14 In determining any relevant adjustment under paragraph 28.13, the Authority must:
- (a) consult with the licensee and other interested parties;
  - (b) have particular regard to the purposes of this condition;
  - (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.
- 28.15 A determination under paragraph 28.13 may confirm, reject, or vary the proposed relevant adjustment.
- 28.16 Without limiting the general effect of paragraph 28.15, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.
- 28.17 The Authority must notify the licensee of any determination made under paragraph 28.13 within 14 days of making the determination concerned.
- 28.18 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 28.7 within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the licensee for Relevant Years specified in the proposal, shall be deemed to have been made.

## **Part B: Determination of revisions to PCFM Variable Values**

- 28.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:
- (a) Enhanced Physical Site Security Costs (IAEEPS values);
  - (b) BT 21st Century Costs (IAEBT values); and
  - (c) Compensation Costs for Landowners for Way leave (IAEWL values).
- 28.20 The Authority shall determine whether any PCFM Variable Values should be revised by 30 November or as soon as is reasonably practicable thereafter following the relevant application window for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.
- 28.21 Determinations under paragraph 28.20 are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.
- 28.22 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, shall not have any retrospective effect on a previously directed value of the term MOD.

## **Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs**

- 28.23 Revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:
- (a) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window; and
  - (b) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the second application window.
- 28.24 Before issuing any directions under paragraph 28.23, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 28.25 The notice referred to in paragraph 28.24 must:
- (a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised PCFM Variable Values.
- 28.26 The Authority shall have due regard to any representations or objections duly received under paragraph 28.25, and give reasons for its decisions in relation to them.
- 28.27 If, for any reason, the Authority does not make a direction required under paragraph 28.23 by the date specified in that paragraph, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph

[26.10] of [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing a value for MOD<sub>t</sub> under that paragraph.

**Part D: Interpretation**

28.28 For the purposes of this condition, the following definitions apply:

- BT 21st Century Costs means costs incurred, or expected to be incurred, by the licensee for upgrading of operational telecommunication systems resulting from the introduction of BT’s 21st Century Networks programme.
- Compensation Costs for Landowners for Way leave means costs incurred, or expected to be incurred, by the licensee in relation to the payment of reasonable claims to the parties to Way leave Agreements and/or Deeds of Servitude held by the licensee, where such costs are reasonably incurred under the terms of Way leave Agreements and/or Deeds of Servitude and which were not reasonably foreseen at the time of agreeing the relevant Way leave Agreement or Deed of Servitude.
- Enhanced Physical Site Security Costs means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee’s Transmission System.
- Totex Incentive Strength Rate means the incentive rate for the licensee set out in Appendix 1 to this condition.

28.29 Expressions defined in paragraph 28.28 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [ETC74] Special Condition [x] (Regulatory Instructions and Guidance).

**APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE**

(see paragraph 28.8 of this condition)

Licensee	Totex Incentive Strength Rate
Scottish Hydro Electric Transmission	xxx

**APPENDIX 2: MATERIALITY THRESHOLD AMOUNT**

(see paragraph 28.8 of this condition)

Licensee	£m (2009/10) prices
Scottish Hydro Electric Transmission	xxx

DRAFT

## [ETC 28]Special Condition [x].Arrangements for the recovery of uncertain costs [SPTL version]

### Introduction

28.1 The purpose of this condition is as follows:

- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of allowed expenditure (“relevant adjustments”) in relation to the categories of costs set out in paragraph 28.4 (each “an uncertain cost category”); and
- (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

28.2 For the purposes of this condition:

Relevant Year *t* means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue).

PCFM Variable Value means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification to the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

28.3 The application of the mechanisms set out in this condition means that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year *t* for the purposes of Part C of [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the licensee's Base Transmission Revenue (whether upwards or downwards) in a manner that takes account of the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph 28.4, determined under Part A of this condition for the

purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapter 6 and 7 of the ET1 Price Control Financial Handbook.

28.4 The uncertain cost categories referred to in paragraph 28.1 are:

- (a) Enhanced Physical Site Security Costs; and
- (b) Work Force Renewal Costs.

28.5 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

#### **Part A: Proposal and determination of relevant adjustments**

28.6 This part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

#### **Proposal of relevant adjustments**

28.7 Subject to paragraph 28.10, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:

- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's opening base revenue allowance was derived;
- (b) takes account of any prior relevant adjustments determined under this condition;
- (c) in aggregate constitutes a material amount within the meaning of paragraph 28.8;
- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.

28.8 A material amount is an amount of change to allowed expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2.

28.9 A proposal made under paragraph 28.7 must include statements setting out:

- (a) the uncertain cost category to which the proposal relates;
- (b) the changes to the licensee's allowed expenditure levels that are proposed and the Relevant Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's allowed expenditure levels referred to in sub-paragraph (b).

## **Application windows for relevant adjustment proposals**

- 28.10 The licensee and the Authority may only propose relevant adjustments during the following application windows:
- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
  - (b) the second application window which opens on 1 May 2016 and closes on 31 May 2016; and
  - (c) the third application window which opens on 1 May 2018 and closes on 31 May 2018.
- 28.11 Relevant adjustments relating to Enhanced Physical Site Security Costs may be proposed during both the first and third application window. Relevant adjustments relating to Work Force Renewal Costs may be proposed during only the second application window. Provided that each such relevant adjustment proposal complies with the provisions of paragraphs 28.7 to 28.9.
- 28.12 Relevant adjustment proposals made outside the application windows set out in paragraph 28.10 will not be determined by the Authority under the provisions of this condition.

## **Authority's power to determine relevant adjustments**

- 28.13 Where a proposal has been duly made under paragraph 28.7, the Authority may, within four months after the close of the relevant application window, determine any relevant adjustments that are to be made to the licensee's allowed expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate.
- 28.14 In determining any relevant adjustment under paragraph 28.13, the Authority must:
- (a) consult with the licensee and other interested parties;
  - (b) have particular regard to the purposes of this condition;
  - (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.
- 28.15 A determination under paragraph 28.13 may confirm, reject, or vary the proposed relevant adjustment.
- 28.16 Without limiting the general effect of paragraph 28.15, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.
- 28.17 The Authority must notify the licensee of any determination made under paragraph 28.13 within 14 days of making the determination concerned.
- 28.18 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 28.7 within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the licensee for Relevant Years specified in the proposal, shall be deemed to have been made.



## **Part B: Determination of revisions to PCFM Variable Values**

- 28.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:
- (a) Enhanced Physical Site Security Costs (IAEEPS values); and
  - (b) Work Force Renewal Costs (IAEWR values).
- 28.20 The Authority shall determine whether any PCFM Variable Values should be revised by 30 November or as soon as is reasonably practicable thereafter following the relevant application window for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.
- 28.21 Determinations under paragraph 28.20 are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.
- 28.22 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year  $t$  and, for the avoidance of doubt, shall not have any retrospective effect on a previously directed value of the term MOD.

## **Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs**

- 28.23 Revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:
- (a) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window;
  - (b) 30 November 2016 (or as soon as is reasonably practicable thereafter), following the second application window; and
  - (c) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the third application window.
- 28.24 Before issuing any directions under paragraph 28.23, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 28.25 The notice referred to in paragraph 28.24 must:
- (a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised PCFM Variable Values.
- 28.26 The Authority shall have due regard to any representations or objections duly received under paragraph 28.25, and give reasons for its decisions in relation to them.
- 28.27 If, for any reason, the Authority does not make a direction required under paragraph 28.23 by the date specified in that paragraph, the Authority shall direct the values

concerned as soon as is reasonably practicable, consistent with the purpose of paragraph [26.10] of [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing a value for  $MOD_t$  under that paragraph.

## Part D: Interpretation

28.28 For the purposes of this condition, the following definitions apply:

Enhanced Physical Site Security Costs	means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee's Transmission System.
Totex Incentive Strength Rate	means the incentive rate for the licensee set out in Appendix 1 to this condition.
Work Force Renewal Costs	means costs incurred, or expected to be incurred, by the licensee in recruitment and training to ensure a sustainable work force that are not included in allowed totex or recoverable through another Special Condition.

28.29 Expressions defined in paragraph 28.28 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [ETC74] Special Condition [x] (Regulatory Instructions and Guidance).

### APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 28.8 of this condition)

Licensee	Totex Incentive Strength Rate
Scottish Power Transmission	xxx

### APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 28.8 of this condition)

Licensee	£m (2009/10) prices
Scottish Power Transmission	xxx

## [ETC 117]Special Condition [x].Arrangements for the recovery of SO uncertain costs [NGET only]

### Introduction

117.1 The purpose of this condition is as follows:

- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of allowed expenditure (“relevant adjustments”) in relation to the categories of costs set out in paragraph 117.4 (each “an uncertain cost category”); and
- (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

117.2 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term SOMOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 12] Special Condition [x] (Restriction of System Operator Internal Revenue).

PCFM Variable Value means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification to the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

117.3 The application of the mechanisms set out in this condition means that, as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of Part [C] of [ETC 12] Special Condition [x] (Restriction of System Operator Internal Revenue) will result in an appropriate adjustment of the licensee's Base SO Internal Revenue (whether upwards or downwards) in a manner that takes account of the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph 117.4, determined under Part A of this condition for

the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapter 6 and 7 of the ET1 Price Control Financial Handbook.

117.4 The uncertain cost categories referred to in paragraph 117.1 are:

- (a) Enhanced Security Costs.

117.5 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

### **Part A: Proposal and determination of relevant adjustments**

117.6 This Part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

### **Proposal of relevant adjustments**

117.7 Subject to paragraph 117.10, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:

- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's opening base revenue allowance was derived;
- (b) takes account of any prior relevant adjustments determined under this condition;
- (c) in aggregate constitutes a material amount within the meaning of paragraph 117.8;
- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.

117.8 A material amount is an amount of change to allowed expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2.

117.9 A proposal made under paragraph 117.7 must include statements setting out:

- (a) the uncertain cost category to which the proposal relates;
- (b) the changes to the licensee's allowed expenditure levels that are proposed and the Relevant Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's allowed expenditure levels referred to in sub-paragraph (b).

### **Application windows for relevant adjustment proposals**

- 117.10 The licensee and the Authority may only propose relevant adjustments during the following application windows:
- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
  - (b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.
- 117.11 Relevant adjustments relating to any uncertain cost category may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 117.7 to 117.9.
- 117.12 Relevant adjustment proposals made outside the application windows set out in paragraph 117.10 will not be determined by the Authority under the provisions of this condition.

### **Authority's power to determine relevant adjustments**

- 117.13 Where a proposal has been duly made under paragraph 117.7, the Authority may, within four months after the close of the relevant application window, determine any relevant adjustments that are to be made to the licensee's allowed expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate.
- 117.14 In determining any relevant adjustment under paragraph 117.13, the Authority must:
- (a) consult with the licensee and other interested parties;
  - (b) have particular regard to the purposes of this condition;
  - (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.
- 117.15 A determination under paragraph 117.13 may confirm, reject, or vary the proposed relevant adjustment.
- 117.16 Without limiting the general effect of paragraph 117.15, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.
- 117.17 The Authority must notify the licensee of any determination made under paragraph 117.13 within 14 days of making the determination concerned.
- 117.18 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 117.7 within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the licensee for Relevant Years specified in the proposal, shall be deemed to have been made.

### **Part B: Determination of revisions to PCFM Variable Values**

- 117.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:
- (a) Enhanced Security Costs (SOIAEEPS values).

117.20 The Authority shall determine whether any PCFM Variable Values should be revised by 30 November or as soon as is reasonably practicable thereafter following the relevant application window for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.

117.21 Determinations under paragraph 117.20 are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.

117.22 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term SOMOD for Relevant Year  $t$  and, for the avoidance of doubt, shall not have any retrospective effect on a previously directed value of the term SOMOD.

### **Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs**

117.23 Revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:

- (a) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window; and
- (b) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the second application window.

117.24 Before issuing any directions under paragraph 117.23, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

117.25 The notice referred to in paragraph 117.24 must:

- (a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
- (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised PCFM Variable Values.

117.26 The Authority shall have due regard to any representations or objections duly received under paragraph 117.25, and give reasons for its decisions in relation to them.

117.27 If, for any reason, the Authority does not make a direction required under paragraph 117.23 by the date specified in that paragraph, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph [26.10] of [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing a value for SOMOD <sub>$t$</sub>  under that paragraph.

### **Part D: Interpretation**

117.28 For the purposes of this condition, the following definitions apply:

Enhanced Security Costs	means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the
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Secretary of State to enhance the security of any of the IT systems required to operate the licensee's Transmission System.

Totex Incentive Strength Rate means the incentive rate for the licensee set out in Appendix 1 to this condition.

117.29 Expressions defined in paragraph 117.28 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [ETC74] Special Condition [x] (Regulatory Instructions and Guidance).

#### **APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE**

(see paragraph 117.8 of this condition)

<b>Licensee</b>	<b>Totex Incentive Strength Rate</b>
National Grid Electricity Transmission	xxx

#### **APPENDIX 2: MATERIALITY THRESHOLD AMOUNT**

(see paragraph 117.8 of this condition)

<b>Licensee</b>	<b>£m (2009/10) prices</b>
National Grid Electricity Transmission	xxx

## **[ETC122] Special Condition [x]. Allowed expenditure for Underground Cabling and volume driver [NGET only]**

### **Introduction**

XX.1 The purposes of this condition are:

- (a) to specify the basis of calculating adjustments to Totex allowances arising from planning requirements to include Underground Cabling in new transmission routes; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the Underground Cabling allowed expenditure ('UCE' values) and the Relevant Years to which those revised UCE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special Condition 4 (Annual Iteration Process for the ET1 Price Control Financial Model).

[This condition sets out the basis of calculating adjustments to Totex allowances arising from planning requirements to include underground cabling in new transmission routes i.e; to adjust allowances where the amount of UGC are different to the baseline. In every year of iteration of the financial model (denoted year t-1), it seeks to specify the total variance in allowance for each relevant year k up to the latest reported (year t-2). The entire vector of allowances is potentially rewritten, changes being made EX ANTE to allowances in the year of performance.]

XX.2 The 'UCE value' relating to a particular Relevant Year t, represents the total amount of allowed expenditure (in 2009/10 prices) for Underground Cabling works in new transmission infrastructure for that Relevant Year as determined in accordance with this condition.

### **Part A: Application of the mechanisms in this condition**

XX.3 This condition provides for:

- (a) the determination of allowed expenditure amounts for particular Relevant Years k for Underground Cabling that is required to fulfil conditions of planning consents for new transmission infrastructure;
- (b) provides a mechanism for the determination of and direction by the Authority of revised UCE values to reflect changes to allowed expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD(TO) as calculated for Relevant Year t for the purposes of Part C of Special Condition [ETC20] (Restriction of Transmission Transportation Activity Charges) will result in an adjustment of the Licensee's Base Transmission Network Activity Revenue in a manner that:
  - (i) reflects approved changes to the allowed Underground Cabling expenditure specified in this condition, and
  - (ii) takes account of approved changes to the allowed Underground Cabling expenditure specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [•] of [ETC



47] Special Condition 2 (Determination of Annual Iteration Process input variable values for Totex Incentive Mechanism adjustments) and in accordance with the methodology set out in Chapter [•] of the ET1 Price Control Financial Handbook.

XX.4 This condition should be read and construed in conjunction with Special Condition 4 (Annual Iteration Process for the ET1 Price Control Financial Model) and Special Condition 5 (Governance of ET1 Price Control Financial Instruments).

**Part B: Baseline Underground Cabling for new transmission infrastructure work during RIIO-T1**

XX.5 Table 1 sets out the baseline expenditure for underground cabling that the licensee might be required to deliver as part of new transmission infrastructure during the price control period to meet conditions or requirements of a Development Consent Order granted by the Secretary of State.

**Table 1: Baseline allowed expenditure for underground cabling**

	Relevant year k							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Circuit kilometres								
£m (2009/10 prices)								

XX.6 The allowed expenditure figures set out in Table 1 have been reflected in:

- (a) the licensee’s opening base revenue allowances, set out against the licensee’s name in Appendix 1 to Special Condition ETC 20 (Restriction of Transmission Transportation Activity Charges); and
- (b) UCE values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

XX.7 The licensee shall notify the Authority the amount, if any, of Underground Cabling works the licensee is required to deliver as part of a new transmission infrastructure project to meet the conditions or requirements of a DCO granted by the Secretary of State.

XX.8 The licensee will report annually to the Authority on the amount and type of Underground Cabling delivered along with information on actual expenditure incurred under the Regulatory Instructions and Guidance issued in accordance with standard condition [ETC74] Regulatory Instructions and Guidance.

**Part C: Calculation of the value of allowed expenditure for Undergrounding Cable Works**

XX.9 The licensee can request that the Authority approve allowed expenditure amounts calculated by this Part C for Underground Cabling works notified in paragraph 8.

XX.10 For the purposes of the Principal Formula, UCE is the sum of allowed expenditure in relevant year k+n (n=0 to 3) for each new transmission infrastructure project c. UCE is to be derived from the following formula:

$$UCE_{c,k+n} = \sum_{m=1}^5 RUGC_{c,m} \times CUCA_m \times W_{k+n} \times RPE_{k+n}$$

where:

- $UCE_{k+n}$  means the sum of allowed expenditure in Relevant Year k+n (n= 0 to 3) expressed in 2009/10 prices for all
- $RUGC_{c,m}$  means the length in circuit kilometres of Underground Cabling specified in a DCO in respect of cable type m and for transmission infrastructure project c.
- $CUCA_m$  means the specific matrix costs in respect of underground cable type m for the licensee's Transmission System, as set out in Table 2.
- $W_{k+n}$  means the weighting factor for expenditure in the applicable relevant year k+n in table 3.
- $RPE_{k+n,t}$  means the Real Price Effect adjustment for relevant year yeark+n in Relevant Year t in Table 4.

**Table 2: Unit cost allowances for Underground Cabling**

Cable capacity and length	Unit cost term	£m/cct kilometre (2009/10 prices)
	UCAC1	
	UCAC2	
	UCAC3	
	UCAC4	
	UCAC5	

**Table 3: Weighting factors for expenditure profile**

Relevant year k	Relevant Year t							
	2013/14	2014/15	2015/16	2016/17	2017/18	2019/20	2020/21	2021/22
2014	0.2							
2015	0.5	0.2						
2016	0.2	0.5	0.2					
2017	0.1	0.2	0.5	0.2				
2018		0.1	0.2	0.5	0.2			
2019			0.1	0.2	0.5	0.2		

Relevant year k	Relevant Year t							
	2013/14	2014/15	2015/16	2016/17	2017/18	2019/20	2020/21	2021/22
2020				0.1	0.2	0.5	0.2	
2021					0.1	0.2	0.5	0.2

**Table 4: Real price effect adjustment factors**

Relevant year k	Relevant Year k							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
RPE factor								

#### **Part D: Determination of revisions to UGC values**

XX.11 The Authority shall by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part E of this condition, specifying the revised UCE values for Relevant Years k+n.

XX.12 The Authority may also revise the UCE value for a Relevant Year or years earlier than Relevant Years in paragraph 14 ('earlier Relevant Years'), notwithstanding that the UCE values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the term UCE pertaining to the earlier Relevant Years or to correct errors in relation to those values; and
- (b) the revised UCE value for the earlier Relevant Years is calculated in accordance with the formula set out in Part C, but substituting RUCG with the actual length of Underground Cabling the licensee delivered in respect of type m for a new transmission infrastructure project c; and
- (c) the revised UCE value for the earlier Relevant Years is specified in a direction issued in accordance with the provisions of Part E of this condition.

#### **Part E: Procedure for direction of revised UCE values by the Authority**

XX.13 Any revised UCE values determined by the Authority in accordance with Part C of this condition will be directed by the Authority by 30 November in each Relevant Year t-1 or as soon as reasonably practicable thereafter.

XX.14 The directed UCE values will be set out in the format of Table 5 below showing the amounts of allowed expenditure for Underground Cabling after any modifications calculated in accordance with the formula set out in Part C and the total of those amounts for each Relevant Year of the Price Control Period.

**Table 5: Allowed expenditure after modifications under Part C for Underground Cabling to meet requirements of a Development Consent Order (£m 2009/10 prices)**

Relevant	Relevant Year t
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year k	2013/14	2014/15	2015/16	2016/17	2017/18	2019/20	2020/21	2021/22
2014								
2015								
2016								
2017								
2018								
2019								
2020								
2021								

XX.15 A direction issued by the Authority under paragraph 16 is of no effect unless the Authority has first:

- (a) given notice to the licensee of all of the values that it proposes to issue a direction under paragraph 16.
- (b) specified the date on which it proposes that the direction should take effect;
- (c) stating that any revised UCE values have been determined in accordance with Part C of this condition; and
- (d) specifying the time (which must not be less than a period of 28 days) within which any representations concerning the proposed direction may be made; and
- (e) considered any representations in response to the notice that are duly made and not withdrawn.

XX.16 Where the Authority directs any revised UCE values for ‘earlier relevant years’ under paragraph 14 in Part D of this condition, the effect of using those revised UCE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.

XX.17 If, for any reason in any relevant year t-1, the Authority does not make a direction in relation to revised UCE values by 30 November, then no revised UCE values will be used in the Annual Iteration Process that is required by Special Condition [ETC26] to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised UCE values in respect of the next Annual Iteration Process.

## Part F: Interpretation

XX.18 For the purposes of this condition:

- Underground Cabling means the laying of transmission circuits directly in the ground or in a tunnel instead of being strung overhead on pylons.
- Development Consent Order means the consent granted by the Secretary of State for a developer to proceed with the construction of transmission infrastructure, classified

	in England and Wales as a Nationally Significant Infrastructure Project.
Relevant Year t	means the Relevant Year in which the value for the term MOD(TO), calculated through the Annual Iteration Process, is used in the formula set out in Part [•] of Special Condition [•] and references to relevant year t-1 are to be construed accordingly.
Relevant year k+n	means the Relevant Years in which the licensee will undertake activity to deliver the output, with n=0 to 3.
PCFM Variable Value	means a value contained in the PCFM Variable Values Table for the licensee contained in ET1 Price Control Financial Model:  which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and  whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Special Condition 5 (Governance of ET1 Price Control Financial Instruments).

DRAFT

## **[ETC123] Special Condition [x].Baseline demand related infrastructure outputs and volume driver [NGET only]**

### **Introduction**

XX.1 The purposes of this condition are:

- (a) to specify the basis on which the licensee's allowed expenditure on demand related infrastructure works ('Demand Related Infrastructure') is to be determined; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the Demand Related Infrastructure allowed expenditure ('DRI' values) and the Relevant Years to which those revised DRI values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special condition 4 (Annual Iteration Process for the ET1 Price Control Financial Model).

XX.2 The 'DRI value' relating to a particular Relevant Year represents the total amount of allowed expenditure (in 2009/10 prices) for all demand related infrastructure the licensee has delivered for that Relevant year. The DRI values as at 1 April 2013 are the approved baseline allowances for the Price Control Period.

### **Part A: Application of the mechanisms in this condition**

XX.3 The application of the mechanisms set out in this condition provides for:

- (a) the determination of allowed expenditure amounts for Demand Related Infrastructure for Relevant Years which reflect actual levels of Demand Related Infrastructure in the Relevant Years concerned; and
- (b) the direction of revised DRI values to reflect changes to allowed expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD(TO) as calculated for Relevant Year t for the purposes of Part C of Special condition [ETC20] (Restriction of Transmission Transportation Activity Charges) will result in an adjustment of the licensee's Base Transmission Network Revenue in a manner that:
- (c) reflects allowed expenditure amounts determined under Part B of this condition; and
- (d) takes account of allowed expenditure for Generation Connections for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [•] of [ETC 47] Special condition 2 (Determination of Annual Iteration Process input variable values for Totex Incentive Mechanism adjustments) and in accordance with the methodology set out in Chapter [•] of the ET1 Price Control Financial Handbook.

XX.4 This condition should be read and construed in conjunction with Special condition 4, and Special condition 5 (Governance of ET1 Price Control Financial Instruments).

### **Part B: Baseline demand related infrastructure expenditure and outputs**

XX.5 Table 1 sets out the allowed expenditure included at the start of the Price Control Period for the delivery of baseline demand related infrastructure outputs.

**Table 1: Baseline DRI outputs and allowed expenditure**

Relevant Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Super Grid Transformers - number	4	6	8	9	17	8	10	10
Tunnels - number	0	0	0	1	0	0	0	0
Allowed expenditure (BDRI) £m	47.6	33.5	26.1	26.7	44.6	37.1	11.0	0.9

XX.6 The allowances associated with the baseline scenario set out in Table 1 have been reflected in:

- (a) the licensee’s opening base revenue allowances, set against the licensee’s name in Appendix 1 to Special Condition ETC 20; and
- (b) BDRI values contained in the PCFM Variable Values Table for the Licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

XX.7 The licensee will report annually on demand related infrastructure works delivered after 31 March 2013 and on its actual expenditure incurred in accordance with Standard Condition [ETC74] Regulatory Instructions and Guidance.

**Part C: Calculation of the value of allowed expenditure for Demand Related Infrastructure Works**

XX.8 The value of DRI for Relevant Year k is to be derived in accordance with the following formula (in this condition, “the Principal Formula”):

$$DRI_{k,t} = BDRI_{k,t} + VDRI_{k,t}$$

$$DRI_{k-1,t} = DRI_{k-1,t-1} + VDRI_{k-1,t}$$

$$DRI_{k-2,t} = DRI_{k-2,t-1} + VDRI_{k-2,t}$$

$$DRI_{k-3,t} = DRI_{k-3,t-1} + VDRI_{k-3,t}$$

where:

**BDRI<sub>k</sub>** means the allowed expenditure in Relevant Year k expressed in 2009/10 prices for demand related infrastructure works as set out in table 1.

**VDRI<sub>k,t</sub>** means the allowed variant expenditure in Relevant Year k expressed in 2009/10 prices for all demand related infrastructure components

delivered for relevant customer connection agreements and DNO requests and calculated in accordance with paragraph 9 of this condition.

VDRIk-n,t means the allowed variant expenditure in Relevant Year k-n expressed in 2009/10 prices for all demand related infrastructure components delivered for relevant customer connection agreements and DNO requests and calculated in accordance with paragraph 9 of this condition.

DRIk-n,t-1 means the DRI value for Relevant Year k-n, calculated in accordance with paragraphs 9 of this condition in the previous relevant year.

XX.9 For the purposes of the Principal Formula, the value of VDRIk for relevant year k is to be derived from the following formula:

$$VDRIc,k = DCONc,k * Wk,t * RPEk,t$$

$$VDRIc,k-1 = DCONc,k * Wk-1,t * RPEk-1,t$$

$$VDRIc,k-2 = DCONc,k * Wk-2,t * RPEk-2,t$$

$$VDRIc,k-3 = DCONc,k * Wk-3,t * RPEk-3,t$$

where:

$$DConc,k = (ASGTc,k - BSGTc,k) * UCAT + AOHLc,k * UCAO + ACBLc,k * UCAC$$

[a composite volume driver for project c specific works (comprising quantities of each asset category) commissioned in Relevant Year k]

ASGTc,k means the actual number of transformers for project c in Relevant Year k.

BSGTc,k means the baseline number of transformers for project c in Relevant Year k.

UCAT means the unit cost allowance for transformers set out in Table 2.

AOHLc,k means the actual kilometres of overhead line for project c in Relevant Year k.

UCAO means the unit cost allowance per kilometre of overhead line set out in Table 2.

ACBLc,k means the actual kilometres of cable for project c in Relevant Year k.

UCACm means the unit cost allowance per kilometre of cable set out in Table 2.

Wk-n,t means the weighting factor for expenditure in the applicable relevant year k, k-1 and k-2 in Relevant Year t in Table 3.

RPEk-n,t means the Real Price Effect adjustment for relevant year k, k-1 and k-2 in Relevant Year t in Table 4.

**Table 2: Demand related infrastructure unit cost allowances**



Unit cost allowance term	£m, 2009/10 prices
UCAT (£m/SGT)	
UCAO (£m/cct km)	
UCAC1 (£m/cct km)	
UCAC2 (£m/cct km)	
UCAC3 (£m/cct km)	
UCAC4 (£m/cct km)	
UCAC5 (£m/cct km)	

**Table 3: Weighting factors for expenditure profile**

Relevant year k	Relevant Year t							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2014	100%	89%	45%					
2015		11%	44%	45%				
2016			11%	44%	45%			
2017				11%	44%	45%		
2018					11%	44%	45%	
2019						11%	44%	45%
2020							11%	44%
2021								11%

**Table 4: Real price effect adjustment factor**

Relevant year k	Relevant Year t							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
RPE factor								

**Part D: Determination of revisions to DRI values**

XX.10 The Authority shall, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part E of this condition, specifying the revised DRI values for Relevant Years k, k-1 and k-2.

XX.11 The Authority may also revise the DRI value for a Relevant Year or Years earlier than Relevant Year in paragraph 10 ('earlier Relevant years'), notwithstanding that the DRI values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the term DRI<sub>k</sub> pertaining to the earlier Relevant Years or to correct errors in relation to those values; and
- (b) the revised DRI value for the earlier Relevant Years is calculated in accordance with the formula set out in Part C; and
- (c) the revised DRI value for the earlier Relevant Years is specified in a direction issued in accordance with the provisions of Part E of this condition.

**Part E: Procedure for direction of revised DRI values by the Authority**

XX.12 Any revised DRI values determined by the Authority in accordance with Part D of this condition will be directed by the Authority by 30 November in each Relevant Year t-1 or as soon as reasonably practicable thereafter.

XX.13 The directed DRI values will be set out in Table 5 below showing the amounts of allowed expenditure for DRI after any modifications calculated in accordance with the formula set out in Part C.

**Table 5: Allowed expenditure after modifications under Part D for DRI Outputs (£m 2009/10 prices)**

Relevant year k	Relevant Year t							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2014				*	*	*	*	*
2015					*	*	*	*
2016						*	*	*
2017							*	*
2018								*
2019								
2020								
2021								

\* The shaded areas in the top right hand corner could contain recalculated DRI values for relevant year k where these have been calculated in accordance with paragraph 11.

XX.14 A direction issued by the Authority under paragraph 12, is of no effect unless the Authority has first:

- (a) given Notice to the licensee of all of the values that it proposes to issue a direction under paragraph 12.
- (b) specifying the date on which it proposes that the direction should take effect;
- (c) stating that any revised DRI values have been determined in accordance with Part C of this condition;

- (d) specifying the time (which must not be less than a period of 28 days) within which any representations concerning the determination of any revised IWW values may be made; and
- (e) considered any representations in response to the Notice that are duly made and not withdrawn.

XX.15 Where the Authority directs any revised DRI values for ‘earlier relevant years’ under paragraph 11 in Part D of this condition, the effect of using those revised DRI values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.

XX.16 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised DRI values by 30 November, then no revised DRI values will be used in the Annual Iteration Process that is required by Special condition [ETC26] to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised DRI values in respect of the next Annual Iteration Process.

## Part F: Interpretation

XX.17 For the purposes of this condition:

Demand Related Infrastructure Works	means the new transmission infrastructure works which are needed to provide demand connections and to increase the off take capacity at grid exit points.
Relevant Customer Connection Agreement	means a commercial agreement with a demand customer for a direct grid connection as defined in the CUSC; (note that signed agreements are published in 10 year statement (long term access charges)
Delivered	means works that have undergone second stage electrical commissioning on the licensee’s transmission system.
Relevant DNO modification request	means a commercial agreement with a Distribution Network Owner for additional offtake capacity at an existing grid exit point or for a new grid exit point;
Relevant Year t	means the Relevant Rear in which the value for the term MOD(TO), calculated through the Annual Iteration Process, is used in the formula set out in Part [•] of Special condition [•] and references to Relevant Year t-1 are to be construed accordingly.
Relevant Year k	means the Relevant Years in which the licensee undertook activity to deliver the output up to the latest reported k= year t-2.
PCFM Variable Value	means a value contained in the PCFM Variable Values Table for the licensee contained in ET1 Price Control Financial Model:  which is capable of being revised by a direction of the Authority following a determination under a relevant Special condition; and  whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Special condition 5.

DRAFT

## **[ETC41] Special Condition [x]. Allowed expenditure for Incremental Wider Works [NGET only]**

### **Introduction**

XX.1 The purposes of this condition are:

- (a) to specify the basis on which the licensee's allowed expenditure is to be determined on Incremental Wider Works ('IWW outputs') that are delivered in accordance with the licensee's Network Development Policy; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the Incremental Wider Works allowed expenditure ('IWW' values) and the relevant years to which those revised IWW values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special Condition 4 (Annual Iteration Process for the ET1 Price Control Financial Model).

[This condition sets out the basis of calculating adjustments to Totex allowances arising from the delivery of incremental wider works i.e. to adjust allowances where the levels of IWW are different to the baseline. In every year of iteration of the financial model (denoted year t-1), it seeks to specify the total variance in allowance for each relevant year k up to the latest reported (year t-2). The entire vector of allowances is potentially rewritten (subject to Authority: Para.19), changes being made retrospectively to allowances in the year of performance, not the year of reporting.]

XX.2 The 'IWW value' relating to a particular Relevant Year t represents the total amount of allowed expenditure (in 2009/10 prices) for incremental wider works outputs the licensee has delivered in relevant year k = t-2 and up to three prior Relevant Years k-1, k-2 and k-3 (t-3, t-4 and t-5). The IWW values as at 1 April 2013 are the approved baseline allowances for the price control period.

### **Part A: Application of the mechanisms in this condition**

XX.3 The application of the mechanisms set out in this condition provides for:

- (a) the determination of allowed expenditure amounts for verified Incremental Wider Works for particular Relevant Years k concerned; and
- (b) the direction of revised IWW values to reflect changes to allowed expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD(TO) as calculated for Relevant Year t for the purposes of Part C of Special Condition [ETC20] (Restriction of Transmission Transportation Activity Charges) will result in an adjustment of the licensee's Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that:
- (c) reflects allowed expenditure amounts determined under Part D of this condition; and
- (d) takes account of allowed expenditure for Incremental Wider Works for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [•]

of [ETC 47] Special Condition 2 (Determination of Annual Iteration Process input variable values for Totex Incentive Mechanism adjustments) and in accordance with the methodology set out in Chapter [•] of the ET1 Price Control Financial Handbook.

XX.4 This condition should be read and construed in conjunction with, Special Condition 4 (Annual Iteration Process for the ET1 Price Control Model), and Special Condition 5 (Governance of ET1 Price Control Financial Instruments).

**Part B: Baseline boundary transfer capability during RIIO-T1**

XX.5 Table 1 sets out the baseline transfer capability for boundaries in the licensee’s transmission system over the Price Control Period. Table 1 also sets out the annual increments of transfer capability that are associated with the baseline scenario for IWW outputs during the price control period. IWW outputs are additional to the Strategic Wider Works specified in ETC39.

**Table 1: Baseline total boundary transfer capability and annual increments in MW**

Boundary transfer capability		Relevant Year							
		2013 /14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21
BX	Baseline (no investment)								
	Baseline scenario								
	Baseline annual increment								
BX	Baseline (no investment)								
	Baseline scenario								
	Baseline annual increment								
BX	Baseline (no								

Boundary transfer capability		Relevant Year							
		2013 /14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21
	investment)								
	Baseline scenario								
	Baseline annual increment								
<b>Baseline allowed expenditure, BIWW £m (2009/10 prices)</b>									

XX.6 The allowances associated with the baseline scenario set out in Table 1 have been reflected in:

- (a) the licensee’s opening base revenue allowances, set against the licensee’s name in Appendix 1 to Special Condition ETC 20 (Restriction of Transmission Transportation Activity Charges); and

39.47. BIWW values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

XX.7 Subject to paragraph 10, the licensee must assess through the application of its approved Network Development Policy (NDP) the amount of transfer capability required on boundaries within the licensee’s transmission system. The licensee must notify the Authority annually on the additions or reductions in boundary transfer capability it has assessed and the IWW outputs the licensee intends to deliver.

XX.8 The licensee shall verify and report on the delivered IWW outputs after 31 March 2013, and on the actual expenditure the licensee has incurred in accordance with standard condition [ETC74] Regulatory Instructions and Guidance.

**Part C: Network Development Policy**

XX.9 The licensee must submit to the Authority on or before [1 April 2013] (or such later date as the Authority may direct) a Network Development Policy (“the policy”).

XX.10 The licensee must include in the policy:

- (a) An explanation of the NDP objectives, including but not limited to:

- (i) determining the scope and timing of IWW outputs that best meet the interests of existing and future consumers; and
- (ii) verifying changes in boundary transfer capability that are applicable for the calculation of the licensee's allowed expenditure for IWW outputs in Part D of this condition.

39.48. An explanation of the licensee's proposed methodology and decision making processes, covering the licensee's approach to:

- (i) the development of model inputs and assumptions;
- (ii) modelling boundary transfer capability requirements;
- (iii) technical, economic and risk assessment of transmission infrastructure options;
- (iv) developing decision criteria and option selection;
- (v) looking at other factors to prioritise IWW outputs, including the potential phasing of delivering outputs, i.e. pre-construction activities and/or the assessment of real option values;
- (vi) working with interested stakeholders and the formal engagement opportunities for stakeholders to provide input and review various elements such as modelling assumptions, scenarios and modelling outputs;
- (vii) determining the annual outputs from the licensee's NDP process, i.e. confirmation of licensee's near-term investment programme, and the licensee's best view of potential reinforcements that might be required longer term;
- (viii) the documents the licensee will publish in relation to its NDP such as consultation and decision documents, and any related publications;
- (ix) the proposed timelines for undertaking the NDP each year of the price control period;
- (x) maintaining the policy so that it is up to date to reflect any relevant changes that affect the network, network users, and existing and future consumers; and
- (xi) explaining how the licensee will verify actual additions in transfer capability on a given boundary are the result of IWW the licensee has delivered in accordance with the licensee's Network Development Policy. This should also set out how the licensee will account for any differences between the actual incremental transfer capability delivered and the amount of transfer capability that the licensee assessed in terms of an Incremental Wider Works output for a given boundary and notified to the Authority in accordance with paragraph 8.

39.49. Unless the Authority otherwise directs within two months of the date of submission of the policy by the licensee in accordance with paragraph 11, the licensee must take all reasonable steps to apply the methodology set out in that policy.



39.50. Before revising the methodology set out in the policy, the licensee must submit a copy of the proposed revisions to the Authority.

39.51. Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 13, the licensee must use reasonable endeavours to apply the methodology in accordance with the proposed revisions.

#### **Part D: Calculation of the value of allowed expenditure for Incremental Wider Works**

XX.11 The value of IWW for Relevant Year k and earlier years k-1, k-2, and k-3 are to be derived in accordance with the following formula (in this condition, “the Principal Formula”):

$$IWW_{k,t} = BIWW_k + VIWW_{k,t}$$

$$IWW_{k-1,t} = IWW_{k-1,t-1} + VIWW_{k-1,t}$$

$$IWW_{k-2,t} = IWW_{k-2,t-1} + VIWW_{k-2,t}$$

$$IWW_{k-3,t} = IWW_{k-3,t-1} + VIWW_{k-3,t}$$

where:

BIWW <sub>k</sub>	means the baseline allowed expenditure for Incremental Wider Works set out in Table 1 for Relevant Year k expressed in 2009/10 prices.
VIWW <sub>k</sub>	means the sum of allowed variant expenditure in Relevant Year k expressed in 2009/10 prices for all boundaries in the licensee’s transmission system, calculated in accordance with paragraph 16 of this condition.
VIWW <sub>k-n,t</sub>	means the sum of allowed variant expenditure in Relevant Year k-n expressed in 2009/10 prices for all boundaries in the licensee’s transmission system, calculated in accordance with paragraph 16 of this condition.
IWW <sub>k-n,t-1</sub>	means the IWW value for Relevant Year k-n, calculated in accordance with paragraphs 15 and 16 of this condition in the previous Relevant Year.

XX.12 Subject to the Incremental Wider Works outputs being delivered in accordance with the licensee’s NDP, the value of VIWW in the Principal Formula for each Relevant Year k and for each boundary j is to be derived from the relevant part of the following formula:

XX.13 If  $AITC_j \leq TT_j$  then: (this tests whether the capability threshold on boundary j has been exceeded and therefore which UCA should be used)

$$DIWW_{j,k} = (AITC_{j,k} - BITC_{j,k}) * LUCA_j$$

Otherwise:

$$DIWW_{j,k} = (AITC_{j,k} - BITC_{j,k}) * UUCA_j$$

And in all cases:

$$VIWW_{j,k} = DIWW_{j,k} * W_{k,t} * RPE_{k,t}$$

$$VIWW_{j,k-1} = DIWW_{j,k} * W_{k-1,t} * RPE_{k-1,t}$$

$$VIWW_{j,k-2} = DIWW_{j,k} * W_{k-2,t} * RPE_{k-2,t}$$

$$VIWW_{j,k-3} = DIWW_{j,k} * W_{k-3,t} * RPE_{k-3,t}$$

where:

- AITC<sub>j,k</sub>** means the assessed incremental transfer capability at boundary j in Relevant Year k notified to the Authority and assessed and verified in accordance with the licensee’s NDP. If the assessed incremental transfer capability has not been verified the value of AITC<sub>j,k</sub> will be the lower of the assessed incremental transfer capability or the actual incremental transfer capability delivered on boundary j in Relevant Year k.
- TT<sub>j</sub>** means the transfer capability threshold at boundary j in Table 2.
- BITC<sub>j,k</sub>** means the baseline incremental transfer capability on boundary j in relevant year k set out in Table 1.
- UUC<sub>Aj</sub>** means the upper unit cost allowance for boundary j in Table 2.
- LUCA<sub>j</sub>** means the lower unit cost allowance for boundary j in Table 2.
- W<sub>k-n,t</sub>** means the weighting factor for expenditure in the applicable relevant year k, k-1, k-2 and k-3 in relevant year t in Table 3.
- RPE<sub>k-n,t</sub>** means the Real Price Effect adjustment for Relevant Year k, k-1, k-2 and k-3 in Relevant Year t in Table 4.

**Table 2: Boundary thresholds and unit cost allowances**

Boundary, j	Transfer capability threshold, TT <sub>j</sub> (MW)	Lower unit cost allowance, UUC <sub>Aj</sub> (£/MW)	Upper unit cost allowance, LUCA <sub>j</sub> (£/MW)

**Table 3: Weighting factors for expenditure profile**

Relevant year k	Relevant Year t							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23

Relevant year k	Relevant Year t							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2014	100%	79%	42%	16%				
2015		21%	37%	26%	16%			
2016			21%	37%	26%	16%		
2017				21%	37%	26%	16%	
2018					21%	37%	26%	16%
2019						21%	37%	26%
2020							21%	37%
2021								21%

**Table 4: Real Price Effect adjustment**

Relevant year k	Relevant Year k							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>RPE factor</b>								

[Need to add section to deal with efficient expenditure that doesn't deliver an output because it has been suspended or cancelled because no longer efficient – process to apply for money where no output delivered and money received will be taken off any future reinforcement at the boundary.]

#### **Part E: Determination of revisions to IWW values**

XX.14 The Authority shall, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part F of this condition, specifying the revised IWW values for relevant years k, k-1, k-2 and k-3.

XX.15 The Authority may also revise the IWW value for a relevant year or years earlier than relevant years in paragraph 18 ('earlier relevant years'), notwithstanding that the IWW values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the term IWW pertaining to the earlier relevant years or to correct errors in relation to those values; and

39.52. the revised IWW value for the earlier relevant years is calculated in accordance with the formula set out in Part D; and

39.53. the revised IWW value for the earlier relevant years is specified in a direction issued in accordance with the provisions of Part F of this condition.

## Part F: Procedure for direction of revised IWW values by the Authority

XX.16 Any revised IWW values determined by the Authority in accordance with Part D of this condition will be directed by the Authority by 30 November in each Relevant Year t-1 or as soon as reasonably practicable thereafter.

XX.17 The directed IWW values will be set out in the format of Table 5 below showing the amounts of allowed expenditure for IWW after any modifications calculated in accordance with the formula set out in Part D and the total of those amounts for each Relevant Year of the price control period.

**Table 5: Allowed expenditure after modifications under Part E for Incremental Wider Works Outputs (£m 2009/10 prices)**

Relevant year k	Relevant Year t							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2014					*	*	*	*
2015						*	*	*
2016							*	*
2017								*
2018								
2019								
2020								
2021								

\* The shaded areas in the top right hand corner could contain recalculated IWW values for Relevant Year k where these have been calculated in accordance with paragraph 18.

XX.18 A direction issued by the Authority under paragraph 16, is of no effect unless the Authority has first:

- (a) given notice to the licensee of all of the values that it proposes to issue a direction under paragraph 16.
- (b) specified the date on which it proposes that the direction should take effect;
- (c) stating that any revised IWW values have been determined in accordance with Part D of this condition;
- (d) specifying the time (which must not be less than a period of 28 days) within which any representations concerning the determination of any revised IWW values may be made; and
- (e) considered any representations in response to the notice that are duly made and not withdrawn.

XX.19 Where the Authority directs any revised IWW values for 'earlier relevant years' under paragraph 19 in Part E of this condition, the effect of using those revised IWW values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a

time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.

XX.20 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised IWW values by 30 November, then no revised IWW values will be used in the Annual Iteration Process that is required by Special Condition [ETC26] to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised IWW values in respect of the next Annual Iteration.

## Part G: Interpretation

XX.21 For the purposes of this condition:

Incremental Wider Works	means transmission infrastructure works that result in additional boundary transfer capability that are not specified in ETC 39.
Delivered	means works that have undergone second stage electrical commissioning on the licensee's transmission system.
Relevant Year t	means the Relevant Year in which the value for the term MOD(TO), calculated through the Annual Iteration Process, is used in the formula set out in Part [•] of Special Condition [•] and references to Relevant Year t-1 are to be construed accordingly.
Relevant Year k	means the Relevant Years in which the licensee undertook activity to deliver the output up to the latest reported k= year t-2.
'PCFM Variable Value'	means a value contained in the PCFM Variable Values Table for the licensee contained in ET1 Price Control Financial Model: which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Special Condition 5 (Governance of ET1 Price Control Financial Instruments).

# **SPECIAL CONDITIONS: FINANCIAL CONDITIONS**

DRAFT

## [ETC 64] Special Condition [x]. Legacy price control adjustments – Transmission Owner

### Introduction

- 64.1 The purpose of this condition is to determine:
- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Part A of this condition; and
  - (b) the Relevant Years to which the revised PCFM Variable Values referred to in sub-paragraph (a) relate, for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).
- 64.2 For the purposes of this condition:

Relevant Year  $t$  means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and references to Relevant Year  $t-1$  are to be construed accordingly.

PCFM Variable Value means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:  
which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and  
whose revision does not constitute modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

- 64.3 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year  $t$  for the purposes of [ETC 20] Special Condition [x] will result in an appropriate adjustment of the licensee's Base Transmission Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the licensee in respect of:
- (a) activities carried out by the licensee;
  - (b) incentivised performance by the licensee; and/or
  - (c) costs or expenditure incurred by the licensee,

in Relevant Years prior to Relevant Year 2013/14 (the ‘legacy period’), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition. This includes the transmission asset owner incentives scheme for which supplementary provisions are set out in [ETC 52] Special Condition [x] (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).

- 64.4 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

**Part A: Determination and direction of revised PCFM Variable Values for legacy price control adjustments**

64.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) legacy price control revenue allowance adjustments (LAR values); and
- (b) legacy price control adjustments to RAV balance additions (LRAV values).

64.6 The LAR and LRAV values for each Relevant Year are zero as at 1 April 2013.

64.7 Subject to paragraphs 64.8 and 64.9 of this condition, the Authority shall, by 30 November in each Relevant Year t-1:

- (a) determine whether any LAR or LRAV values should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined and the Relevant Years to which they relate.

64.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 64.7 is Relevant Year 2013/14.

64.9 The revised LAR value for any Relevant Year from 2013/14 onwards is determined in accordance with the following formula:

$$\text{LAR} = \text{PAR} + \text{TAR} + \text{CAR} + \text{IAR} + \text{SAR}$$

Where, in each case, for the same Relevant Year t:

PAR means the revenue allowance adjustment in respect of adjustments for pension scheme expenditure in the legacy period, determined in accordance with Part B of this condition.

TAR means the revenue allowance adjustment in respect of the licensee’s gearing levels and corporate debt interest costs in the legacy period, determined in accordance with Part B of this condition.



CAR	means the revenue allowance adjustment in respect of the Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.
IAR	means the revenue allowance adjustment in respect of transmission asset owner scheme activity in the legacy period, determined in accordance with Part B of this condition.
SAR	means the revenue allowance adjustment in respect of adjustments for logged up and security costs in the legacy period, determined in accordance with Part B of this condition.

64.10 The LRAV value for any Relevant Year from 2013/14 onwards is determined in accordance with the following formula:

$$\text{LRAV} = \text{CRAV} + \text{IRAV} + \text{SRAV}$$

Where, in each case, for the same Relevant Year t:

CRAV	means the adjustment to the licensee's RAV balance additions in respect of the Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.
IRAV	means the adjustment to the licensee's RAV balance additions in respect of transmission asset owner scheme activity in the legacy period, determined in accordance with Part B of this condition.
SRAV	means the adjustment to the licensee's RAV balance additions in respect of adjustments for logged up and security costs in the legacy period, determined in accordance with Part B of this condition.

64.11 Where the Authority directs any revised LAR values or LRAV values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

**Part B: Determination of component values for the determination of LAR and LRAV values**

64.12 This Part provides for the determination of component values for the determination of LAR values and LRAV values.

- 64.13 Subject to paragraph 64.14, the Authority shall, by 30 November in each Relevant Year t-1, determine the value of the following terms:
- (a) PAR, in accordance with the methodology set out in part A of chapter 15 of the ET1 Price Control Financial Handbook;
  - (b) TAR, in accordance with the methodology set out in part B of chapter 15 of the ET1 Price Control Financial Handbook;
  - (c) CAR and CRAV, in accordance with the methodology set out in part C of chapter 15 of the ET1 Price Control Financial Handbook;
  - (d) IAR and IRAV, in accordance with the methodology set out in part D of chapter 15 of the ET1 Price Control Financial Handbook and using the values of the inputs specified and determined in Special Condition ETC 52; and
  - (e) SAR and SRAV, in accordance with the methodology set out in part E of chapter 15 of the ET1 Price Control Financial Handbook.
- 64.14 The first Relevant Year in which the Authority will make determinations pursuant to paragraph 64.13 is Relevant Year 2013/14.
- 64.15 The Authority shall include a statement of any values determined pursuant to paragraph 64.13 in a direction given under Part C of this condition.

**Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority**

- 64.16 Subject to paragraph 64.8, revised LAR values and LRAV values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 64.17 Before issuing any directions under paragraph 64.16, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 64.18 The notice referred to in paragraph 64.17 must:
- (a) state that any revised LAR and LRAV values have been determined in accordance with Parts A and B of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised LAR or LRAV values.
- 64.19 The Authority shall have due regard to any representations or objections duly received under paragraph 64.18, and give reasons for its decisions in relation to them.
- 64.20 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised LAR and LRAV values by 30 November, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition ETC 26, and in any case, before directing a value for MODt or SOMODt under paragraph 26.12 of that condition.

**Part D: Interpretation**

- 64.21 For the purposes of this condition, the following definitions apply:

Annual Iteration Process means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition ETC 26 (Annual Iteration Process for the ET1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.

Capex Rolling Incentive means the mechanism giving rise to the capital expenditure incentive revenue adjustment term, CxIncRA in Special Condition D9 of this licence in the form it was in on 31 March 2013.

ET1 Price Control Financial Handbook means the document of that name that was published by the Authority under reference number [●]/12 on [●] December 2012 that:

- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Methodologies means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) (together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Model means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [●] December 2012:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with

a Relevant Year suffix) on the Authority's Website; and

- (b) that the Authority will use to determine the values of the terms MOD and SOMOD through the application of the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

64.22 Expressions used in paragraphs 64.2 and 64.21 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

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## **[ETC67] Special Condition [x]. Legacy price control adjustments – System Operator**

### **Introduction**

67.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Part A of this condition; and
- (b) the Relevant Years to which the revised values referred to in sub-paragraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

67.2 For the purposes of this condition:

Relevant Year t

means the Relevant Year in which the value for the term SOMOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 12] Special Condition [x] (Restriction on System Operator Internal Revenue) and references to Relevant Year t-1 are to be construed accordingly.

PCFM Variable Value

means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

67.3 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of [ETC 12] Special Condition [x] will result in an appropriate adjustment of the licensee's Base SO Internal Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, SO Regulatory Asset Value (SO RAV) balance adjustments attributable to the licensee in respect of:

- (a) activities carried out by the licensee;

- (b) incentivised performance by the licensee; and/or
- (c) costs or expenditure incurred by the licensee,

in Relevant Years prior to Relevant Year 2013/14 (the ‘legacy period’), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.

67.4 This condition should be read and construed in conjunction with Special Conditions ETC 26 and ETC 57.

**Part A: Determination and direction of revised PCFM Variable Values for SO legacy price control adjustments**

67.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) SO legacy price control revenue allowance adjustments (SOLAR values); and
- (b) SO legacy price control adjustments to SO RAV balance additions (SOLRAV values).

67.6 The SOLAR and SOLRAV values for each Relevant Year are zero as at 1 April 2013.

67.7 Subject to paragraphs 67.8 and 67.9 of this condition, the Authority shall, by 30 November in each Relevant Year t-1:

- (a) determine whether any SOLAR or SOLRAV values should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined and the Relevant Years to which they relate.

67.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 67.7 is Relevant Year 2013/14.

67.9 The revised SOLAR value for any Relevant Year from 2013/14 onwards is determined in accordance with the following formula:

$$\text{SOLAR} = \text{SOPAR} + \text{SOTAR} + \text{SOCAR}$$

where, in each case, for the same Relevant Year:

**SOPAR** means the revenue allowance adjustment in respect of adjustments for SO pension scheme expenditure in the legacy period, determined in accordance with Part B of this condition.

**SOTAR** means the revenue allowance adjustment in respect of the licensee’s SO gearing levels and corporate debt interest costs in the legacy period, determined in accordance with Part B of this condition.

**SOCAR** means the revenue allowance adjustment in respect of the SO Capex Rolling Incentive in the

legacy period, determined in accordance with Part B of this condition.

67.10 The SOLRAV value for any Relevant Year from 2013/14 onwards is determined in accordance with the following formula:

$$\text{SOLRAV} = \text{SOCRAV}$$

where, in each case, for the same Relevant Year:

SOCRAV means the adjustment to the licensee's SO RAV balance additions in respect of the SO Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.

67.11 Where the Authority directs any revised SOLAR values or SOLRAV values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

### **Part B: Determination of component values for the determination of SOLAR and SOLRAV values**

67.12 This Part provides for the determination of component values for the determination of SOLAR and SOLRAV values.

67.13 Subject to paragraph 67.14, the Authority shall, by 30 November in each Relevant Year t-1, determine the value of the following terms:

- (a) SOPAR, in accordance with the methodology set out in part A of chapter 15 of the ET1 Price Control Financial Handbook;
- (b) SOTAR, in accordance with the methodology set out in part B of chapter 15 of the ET1 Price Control Financial Handbook; and
- (c) SOCAR and SOCRAV, in accordance with the methodology set out in part C of chapter 18 of the ET1 Price Control Financial Handbook.

67.14 The first Relevant Year in which the Authority will make determinations pursuant to paragraph 64.13 is Relevant Year 2013/14.

67.15 The Authority shall include a statement of any values determined pursuant to paragraph 67.13 in a direction given under Part C of this condition.

### **Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to SO legacy price control adjustments by the Authority**

67.16 Subject to paragraph 67.8, revised SOLAR values and SOLRAV values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

67.17 Before issuing any directions under paragraph 67.16, the Authority will give notice to the licensee of all of the values that it proposes to direct.

67.18 The notice referred to in paragraph 64.17 must:

- (a) state that any revised SOLAR and SOLRAV values have been determined in accordance with Parts A and B of this condition; and
- (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised SOLAR or SOLRAV values.

67.19 The Authority shall have due regard to any representations or objections duly received under paragraph 67.18, and give reasons for its decisions in relation to them.

67.20 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOLAR and SOLRAV values by 30 November, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition ETC 26, and in any case, before directing a value for MODt or SOMODt under paragraph 26.12 of that condition..

#### Part D: Interpretation

67.21 For the purposes of this condition, the following definitions apply:

**Annual Iteration Process** means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition ETC 26 (Annual Iteration Process for the ET1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.

**ET1 Price Control Financial Handbook** means the document of that name that was published by the Authority under reference number [●]/12 on [●] December 2012 that:

- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time, whether under this condition or otherwise.

**ET1 Price Control Financial Methodologies** means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) (together comprise a complete and documented explanation of the methods, principles, and



assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process.

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Model

means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [●] December 2012:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Relevant Year suffix) on the Authority's Website; and
- (b) that the Authority will use to determine the values of the terms MOD and SOMOD through the application of the Annual Iteration Process,

SO Capex Rolling Incentive

as modified from time to time, whether under this condition or otherwise.

means the mechanism giving rise to the adjustment term IncPayEXtt in Special Condition AA5A of this licence in the form it was in on 31 March 2013.

67.22 Expressions used in paragraphs 67.2 and 67.21 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

# [ETC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner

## Introduction

47.1 The purpose of this condition is

- (a) to establish the basis for determining PCFM Variable values for the licensee’s actual TO Totex expenditure, in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

47.2 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and references to Relevant Year t-1 and t-2 are to be construed accordingly.

PCFM Variable Value means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

47.3 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

- (a) the value of the term MOD as calculated for Relevant Year t for the purposes of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee’s base transmission revenue; and

- (b) appropriate adjustments will be made to the licensee's Regulatory Asset Value (RAV) balance, that reflect the licensee's performance under the Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

47.4 This condition should be read and construed in conjunction with, Special Conditions ETC 26 and ETC 57.

**Part A: TO Totex Incentive Mechanism applicable to the licensee**

47.5 The TO Totex Incentive Mechanism ensures that the licensee bears an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Relevant Year, between:

- (a) the licensee's allowed TO Totex expenditure; and
- (b) the licensee's actual TO Totex expenditure.

47.6 The 'appropriate share' referred to in paragraph 47.5 is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).

47.7 TO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the ET1 Price Control Financial Model.

47.8 This condition provides for the determination and direction of revisions to the six PCFM Variable Values that relate to the licensee's actual TO Totex expenditure. PCFM Variable Values which relate to the licensee's allowed TO Totex expenditure are specified in other special conditions of the licence, and are scheduled in the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

**Part B: Process for determining PCFM Variable Value values for the TO Totex Incentive Mechanism**

47.9 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) actual load related capex expenditure (ALC values);
- (b) actual asset replacement capex expenditure (ARC values);
- (c) actual other capex expenditure (AOC values);
- (d) actual controllable opex (ACO values); and
- (e) actual non-operational capex (ANC values).

47.10 Subject to paragraph 47.11, the Authority shall, by 30 November in each Relevant Year t-1

- (a) determine revised ALC, ARC, AOC, ACO and ANC values for Relevant Year t-2; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Relevant Years to which they relate,

in each case in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook.

- 47.11 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 47.10 is Relevant Year 2015/16.
- 47.12 The Authority may also direct revisions to ALC, ARC, AOC, ACO and ANC values for Relevant Years earlier than Relevant Year t-2, where that is necessary to take into account any restatement of, or correction to, Price Control Review Information submitted by the licensee, under any provision of the licence. Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.
- 47.13 Where the Authority directs any revised ALC, ARC, AOC, ACO or ANC values for Relevant Years earlier than Relevant Year t-2, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

**Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to the licensee's actual TO Totex expenditure by the Authority**

- 47.14 Subject to paragraph 47.11, revised ALC, ARC, AOC, ACO and ANC values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 47.15 Before issuing any directions under paragraph 47.14 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 47.16 The notice referred to in paragraph 47.15 must:
- (a) state that any revised ALC, ARC, AOC, ACO or ANC values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised ALC, ARC, AOC, ACO or ANC values.
- 47.17 The Authority shall have due regard to any representations or objections duly received under paragraph 47.16, and give reasons for its decisions in relation to them.
- 47.18 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised ALC, ARC, AOC, ACO and ANC values by 30 November, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition ETC 26, and in any case, before directing a value for MOD<sub>t</sub> or SOMOD<sub>t</sub> under paragraph 26.12 of that condition.

**Part D: Interpretation**

- 47.19 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition ETC 26 (Annual Iteration Process for the ET1 Price Control Financial Model), which is
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to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.

ET1 Price Control Financial Handbook

means the document of that name that was published by the Authority under reference number [●]/12 on [●] December 2012 that:

- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Methodologies

means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) (together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

Price Control Review Information

has the meaning given in Standard Condition B15 (Price Control Review Information).

ET1 Price Control Financial Model

means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [●] December 2012:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Relevant Year suffix) on the Authority's Website; and
- (b) that the Authority will use to determine the values of the terms MOD and SOMOD through the

application of the Annual Iteration Process,

Regulatory Asset Value as modified from time to time, whether under this condition or otherwise.

Totex and TO Totex has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook;

Totex Capitalisation Rate have the meanings given to those terms in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

Totex Capitalisation Rate has the meaning given to that term in chapter 6 of the ET 1 Price Control Financial Handbook.

47.20 Expressions used in paragraphs 47.2 and 47.19 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

**APPENDIX 1: TOTEX INCENTIVE STRENGTH AND TOTEX CAPITALISATIONRATES**

**(see Part A of this condition)**

<b>Licensee</b>	<b>Totex Incentive Strength Rate</b>	<b>Totex Capitalisation Rate</b>
National Grid Electricity Transmission	48%	85%
Scottish Hydro Electric Transmission	50%	90%
Scottish Power Transmission	50%	90%

# **[ETC66] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator**

## **Introduction**

66.1 The purpose of this condition is

to establish the basis for determining PCFM Variable values for the licensee’s actual SO Totex expenditure in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

66.2 For the purposes of this condition:

Relevant Year t

means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and references to Relevant Year t-1 and t-2 are to be construed accordingly.

PCFM Variable Value

means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

66.3 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

- (a) the value of the term SOMOD as calculated for Relevant Year t for the purposes of [ETC 12] Special Condition [x] (Restriction on System Operator Internal Revenue) will result in an adjustment of the licensee’s Base SO Internal Revenue; and
- (b) appropriate adjustments will be made to the licensee’s SO Regulatory Asset Value (SO RAV) balance that reflect the licensee’s performance under the

Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

- 66.4 This condition should be read and construed in conjunction with, Special Conditions ETC 26 and ETC 57.

**Part A: SO Totex Incentive Mechanism applicable to the licensee**

- 66.5 The SO Totex Incentive Mechanism ensures that the licensee bears an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Relevant Year, between:
- (a) the licensee's allowed SO Totex expenditure; and
  - (b) the licensee's actual SO Totex expenditure.
- 66.6 The 'appropriate share' referred to in paragraph 66.5 is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).
- 66.7 SO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the ET1 Price Control Financial Model.
- 66.8 This condition provides for the determination and direction of revisions to the two PCFM Variable Values that relate to the licensee's actual SO Totex expenditure. PCFM Variable Values which relate to the licensee's allowed SO Totex expenditure are specified in other special conditions of the licence, and are scheduled in the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

**Part B: Process for determining PCFM Variable Values for the SO Totex Incentive Mechanism**

- 66.9 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) actual controllable opex (SOACO values); and
  - (b) actual non-operational capex (SOANC values).
- 66.10 Subject to paragraph 66.11, the Authority shall, by 30 November in each Relevant Year t-1:
- (a) determine revised SOACO and SOANC values for Relevant Year t-2; and
  - (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Relevant Years to which they relate,

in each case in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook.

- 66.11 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 66.10 is Relevant Year 2015/16.
- 66.12 The Authority may also direct revisions to SOACO and SOANC values for Relevant Years earlier than Relevant Year t-2, where that is necessary to take into account any restatement of, or correction to, Price Control Review Information submitted by the



licensee, under any provision of the licence. Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.

- 66.13 Where the Authority directs any revised SOACO or SOANC values for Relevant Years earlier than Relevant Year  $t-2$ , the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term SOMOD for Relevant Year  $t$  and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

**Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to the licensee's actual SO Totex expenditure by the Authority**

- 66.14 Subject to paragraph 66.11 revised SOACO and SOANC values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year  $t-1$ .
- 66.15 Before issuing any directions under paragraph 66.14 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 66.16 The notice referred to in paragraph 66.15 must:
- (a) state that any revised SOACO or SOANC values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised SOACO or SOANC values.
- 66.17 The Authority shall have due regard to any representations or objections duly received under paragraph 66.16, and give reasons for its decisions in relation to them.
- 66.18 If, for any reason in any Relevant Year  $t-1$ , the Authority does not make a direction in relation to revised SOACO and SOANC values by 30 November, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition ETC 26, and in any case, before directing a value for MOD $t$  or SOMOD $t$  under paragraph 26.12 of that condition.

**Part D: Interpretation**

- 66.19 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition ETC 26 (Annual Iteration Process for the ET1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.
ET1 Price Control Financial Handbook	means the document of that name that was published by the Authority under reference number [●]/12 on [●] December 2012 that:

- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Methodologies

means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) (together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

Price Control Review Information

has the meaning given in Standard Condition B15 (Price Control Review Information).

ET1 Price Control Financial Model

means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [●] December 2012:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Relevant Year suffix) on the Authority's Website; and
- (b) that the Authority will use to determine the values of the terms MOD and SOMOD through the application of the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

Regulatory Asset Value

has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.

Totex and TO Totex have the meanings given to those terms in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

SO Totex Capitalisation Rate has the meaning given to that term in chapter 6 of the ET 1 Price Control Financial Handbook

66.20 Expressions used in paragraphs 66.2 and 66.19 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

### **APPENDIX 1: TOTEX INCENTIVE STRENGTH AND SO TOTEX CAPITALISATION RATES**

**(see Part A of this condition)**

<b>Licensee</b>	<b>Incentive Strength</b>	<b>SO Totex Capitalisation Rate</b>
National Grid Electricity Transmission plc	48%	31%

## **[ETC 27] Special Condition [x]. Specified financial adjustments – Transmission Owner**

### **Introduction**

- 27.1 The purpose of this condition is to determine:
- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
  - (b) the Relevant Years to which the revised values referred to in sub-paragraph (a) relate,
- 27.2 for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).
- 27.3 For the purposes of this condition:
- |                     |   |
|---------------------|---|
| Relevant Year t     | means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and references to Relevant Year t-1 and t-2 are to be construed accordingly.  |
| PCFM Variable Value | means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model: <ul style="list-style-type: none"><li>(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and</li><li>(b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).</li></ul> |
- 27.4 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purpose of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an appropriate adjustment to the licensee's base transmission revenue in a manner that appropriately reflects the licensee's:
- (a) revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy;
  - (b) revenue allowances for tax liabilities; and

(c) allowed TO percentage cost of corporate debt,

determined under the methodologies set out in chapters 3, 4 and 5 of the ET1 Price Control Financial Handbook respectively.

27.5 This condition should be read and construed in conjunction with Special Conditions ETC26 and ETC 57.

**Part A: TO Revenue allowances for Pension Scheme Established Deficits, Pension Scheme administration and the Pension Protection Fund levy**

27.6 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) Pension Scheme Established Deficit TO revenue allowances (EDE values); and
- (b) Pension Scheme Administration and Pension Protection Fund levy TO revenue allowances (APFE values).

27.7 Subject to paragraph 27.8, the Authority shall, by 30 November in each Relevant Year t-1, determine whether any EDE values should be revised as a result of:

- (a) a valuation of the Established Deficit associated with a pension scheme sponsored by the licensee;
- (b) a review of the efficiency with which any Established Deficit position has been managed; or
- (c) a review of the level of payments actually made by the licensee to its pension scheme trustees,

in each case in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

27.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 27.7 is Relevant Year 2014/15.

27.9 Subject to paragraph 27.10, the Authority shall, by 30 November in each Relevant Year t-1, determine whether any APFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) Pension Scheme Administration costs; and/or
- (b) Pension Protection Fund levy costs

in each case, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

27.10 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 27.8 is Relevant Year 2014/15.

27.11 If the Authority determines under paragraph 27.7 or 27.9 that, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook, any EDE values or APFE values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised EDE values and APFE values that have been determined and the Relevant Years to which they relate.

27.12 Where the Authority directs any revised EDE values or APFE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

### **Part B: TO tax liability allowances**

27.13 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) TO tax liability revenue allowance adjustments in respect of tax trigger event (TTE values); and
- (b) TO tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (TGIE values).

27.14 The TTE values and TGIE values for each Relevant Year are zero as at 1 April 2013.

27.15 Subject to paragraph 27.16, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

27.16 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 27.15 is Relevant Year 2013/14.

27.17 Subject to paragraph 27.18, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any TGIE values should be revised as a result of a review of:

- (a) the licensee's actual level of gearing; and
- (b) the level of debt interest charges actually incurred by the licensee,

in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

27.18 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 27.17 is Relevant Year 2014/15.

27.19 If the Authority determines under paragraph 27.15 or 27.17 that, in accordance with the methodologies contained in chapter 4 of the ET1 Price Control Financial Handbook, any TTE values or TGIE values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TTE values and TGIE values that have been determined and the Relevant Years to which they relate.

27.20 Where the Authority directs any revised TTE values or TGIE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

### **Part C: Allowed TO percentage cost of corporate debt**

- 27.21 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed TO percentage cost of corporate debt (CDE values).
- 27.22 Subject to paragraph 27.23, the Authority shall by 30 November in each Relevant Year t-1:
- (a) determine a revised CDE value for Relevant Year t and each subsequent Relevant Year in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook; and
  - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised CDE values that have been determined and the Relevant Years to which they relate.
- 27.23 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 27.22 is Relevant Year 2013/14.
- 27.24 The Authority may also revise the CDE value for a Relevant Year earlier than Relevant Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.
- 27.25 Where the Authority directs any revised CDE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

**Part D: Procedure to be followed for direction of revised PCFM Variable Values relating to specified TO financial adjustments by the Authority**

- 27.26 Subject to paragraphs 27.8, 27.10, 27.16, 27.18 and 27.23, revised EDE, APFE, TTE, TGIE and CDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 27.27 Before issuing any directions under paragraph 27.26, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 27.28 The notice referred to in paragraph 27.27 must:
- (a) state that any revised EDE and APFE values have been determined in accordance with Part A of this condition;
  - (b) state that any revised TTE and TGIE values have been determined in accordance with Part B of this condition;
  - (c) state that any revised CDE values have been determined in accordance with Part C of this condition; and
  - (d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised EDE, APFE, TTE, TGIE or CDE values.
- 27.29 The Authority shall have due regard to any representations or objections duly received under paragraph 27.28, and give reasons for its decisions in relation to them.

27.30 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised EDE, APFE, TTE, TGIE and CDE values by 30 November, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition ETC 26, and in any case, before directing a value for MODt or SOMODt under paragraph 26.12 of that condition.

## Part E: Interpretation

27.31 For the purposes of this condition, the following definitions apply:

**Annual Iteration Process** means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition ETC 26 (Annual Iteration Process for the ET1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.

**Pension Scheme Administration** has the meaning given in chapter 3 of the ET1 Price Control Financial Handbook.

**Pension Scheme Established Deficit** has the meaning given in chapter 3 of the ET1 Price Control Financial Handbook.

**ET1 Price Control Financial Handbook** means the document of that name that was published by the Authority under reference number [●]/12 on [●] December 2012 that:

- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time, whether under this condition or otherwise.

**ET1 Price Control Financial Methodologies** means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) (together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority



will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise;

ET1 Price Control Financial Model

means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [●] December 2012:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Relevant Year suffix) on the Authority's Website; and
- (b) that the Authority will use to determine the values of the terms MOD and SOMOD through the application of the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

Pension Protection Fund

has the meaning given in chapter 3 of the ET1 Price Control Financial Handbook.

27.32 Expressions used in paragraphs 27.2 and 27.31 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

## **[ETC 65] Special Condition [x]. Specified financial adjustments – System Operator**

### **Introduction**

65.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
- (b) the Relevant Years to which the revised values referred to in sub-paragraph (a) relate, for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

65.2 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term SOMOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Price Control Condition [ETC 12] (Restriction on System Internal Revenue) and references to Relevant Year t-1 to be construed accordingly.

PCFM Variable Value means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

65.3 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of [ETC 12] Special Condition [x] (Restriction on System Operator Internal Costs) will result in an appropriate adjustment to the licensee's Base SO Internal Revenue in a manner that appropriately reflects the licensee's:

- (a) revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy;
- (b) revenue allowances for tax liabilities; and

- (c) allowed SO percentage cost of corporate debt,
- (d) determined under the methodologies set out in chapters 3, 4 and 5 of the ET1 Price Control Financial Handbook respectively.

65.4 This condition should be read and construed in conjunction with Special Conditions ETC 26 and ETC 57.

**Part A: SO revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy**

65.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) Pension Scheme Established Deficit SO revenue allowances (SOEDE values); and
- (b) Pension Scheme Administration and Pension Protection Fund levy SO revenue allowances (SOAPFE values).

65.6 Subject to paragraph 65.7, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any SOEDE values should be revised as a result of:

- (a) a valuation of the Established Deficit associated with a pension scheme sponsored by the licensee;
- (b) a review of the efficiency with which any Established Deficit position has been managed; or
- (c) a review of the level of payments actually made by the licensee to its pension scheme trustees,

in each case in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

65.7 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 65.6 is Relevant Year 2014/15.

65.8 Subject to paragraph 65.9, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any SOAPFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) Pension Scheme Administration costs; and/or
- (b) Pension Protection Fund levy costs

in each case, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

65.9 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 65.8 is Relevant Year 2014/15.

65.10 If the Authority determines under paragraph 65.6 or 65.8 that, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook, any SOEDE values or SOAPFE values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOEDE values and SOAPFE values that have been determined and the Relevant Years to which they relate.

65.11 Where the Authority directs any revised SOEDE values or SOAPFE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

#### **Part B: SO tax liability allowances**

65.12 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) SO tax liability revenue allowance adjustments in respect of tax trigger events (SOTTE values); and
- (b) SO tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (SOTGIE values).

65.13 The SOTTE values and SOTGIE values for each Relevant Year are zero as at 1 April 2013.

65.14 Subject to paragraph 65.15, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any SOTTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

65.15 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 65.14 is Relevant Year 2013/14.

65.16 Subject to paragraph 65.17, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any SOTGIE values should be revised as a result of a review of:

- (a) the licensee's actual level of gearing; and
- (b) the level of debt interest charges actually incurred by the licensee,

in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

65.17 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 65.16 is Relevant Year 2014/15.

65.18 If the Authority determines under paragraph 65.14 or 65.16 that, in accordance with the methodologies contained in chapter 4 of the ET1 Price Control Financial Handbook, any SOTTE values or SOTGIE values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOTTE values and SOTGIE values that have been determined and the Relevant Years to which they relate.

65.19 Where the Authority directs any revised SOTTE values or SOTGIE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

#### **Part C: Allowed SO percentage cost of corporate debt**

- 65.20 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed SO percentage cost of corporate debt (SOCDE values).
- 65.21 Subject to paragraph 65.22, the Authority shall by 30 November in each Relevant Year t-1:
- (a) determine a revised SOCDE value for Relevant Year t and each subsequent Relevant Year in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook; and
  - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOCDE values that have been determined and the Relevant Years to which they relate.
- 65.22 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 65.21 is Relevant Year 2013/14.
- 65.23 The Authority may also revise the SOCDE value for a Relevant Year earlier than Relevant Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.
- 65.24 Where the Authority directs any revised SOCDE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

**Part D: Procedure to be followed for direction of revised SO PCFM Variable Values relating to specified SO financial adjustments by the Authority**

- 65.25 Subject to paragraphs 65.7, 65.9, 65.15, 65.17 and 65.22, revised SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 65.26 Before issuing any directions under paragraph 65.25, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 65.27 The notice referred to in paragraph 65.26 must:
- (a) state that any revised SOEDE and SOAPFE values have been determined in accordance with Part A of this condition;
  - (b) state that any revised SOTTE and SOTGIE values have been determined in accordance with Part B of this condition;
  - (c) state that any revised SOCDE values have been determined in accordance with Part C of this condition; and
  - (d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised SOEDE, SOAPFE, SOTTE, SOTGIE or SOCDE values.
- 65.28 The Authority shall have due regard to any representations or objections duly received under paragraph 65.27, and give reasons for its decisions in relation to them.

65.29 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values by 30 November, the Authority shall direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of [ETC 26] Special Condition; and in any case, before directing a value for MODt or SOMODt under paragraph 26.12 of that condition.

## Part E: Interpretation

65.30 For the purposes of this condition, the following definitions apply:

Annual Iteration Process means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition ETC 26 (Annual Iteration Process for the ET1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.

Pension Scheme Administration has the meaning given in chapter 3 of the ET1 Price Control Financial Handbook.

Pension Scheme Established Deficit has the meaning given in chapter 3 of the ET1 Price Control Financial Handbook.

ET1 Price Control Financial Handbook means the document of that name that was published by the Authority under reference number [●]/12 on [●] December 2012 that:

- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Methodologies means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) (together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority

will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Model

means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [●] December 2012:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Relevant Year suffix) on the Authority's Website; and
- (b) that the Authority will use to determine the values of the terms MOD and SOMOD through the application of the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

Pension Protection Fund

has the meaning given in chapter 3 of the ET1 Price Control Financial Handbook.

65.31 Expressions used in paragraphs 65.2 and 65.30 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

## [ETC 26] Special Condition [x]. Annual Iteration Process for the ET1 Price Control Financial Model

### Introduction

26.1 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the values for the terms MOD and SOMOD, determined under a particular Annual Iteration Process, are used in the formulae set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and [ETC 12] Special Condition [x] (Restriction on System Operator Internal Revenue) respectively, and to “Relevant Year t-1” are to be construed accordingly.

PCFM Variable Value means a value held in a PCFM Variable Values

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x](Governance of ET1 Price Control Financial Instruments).

26.2 The purpose of this condition is to set out the steps of the Annual Iteration Process, that the Authority will carry out in each Relevant Year t-1, in relation to the ET1 Price Control Financial Model in order to determine the values of the terms MOD and SOMOD for Relevant Year t, for the purposes of the formulae that are specified in Special Condition ETC 20 and Special Condition ETC 12.

26.3 The Annual Iteration Process will consist of, and will be carried out by the Authority in accordance with, the steps set out in Part A below, in a manner that is in accordance with the procedures set out in chapter 1 of the ET1 Price Control Financial Handbook.

26.4 The outcome of the Annual Iteration Process with respect to the value of the terms MOD<sub>t</sub> and SOMOD<sub>t</sub> will be notified to the licensee in accordance with Part B below.

### Part A: Steps comprising the Annual Iteration Process

26.5 The Authority will save a record copy of the ET1 Price Control Financial Model in the form, and with the content it has before any of the steps of the annual iteration process set out below are commenced.



- 26.6 Step 1: The Authority will make revisions to PCFM Variable Values where and to the extent required in relation to adjustments for the licensee under:
- [Will re-order once have final RIIO licence numbers]
- (a) [ETC9] Special Condition [x] (The Innovation Roll-out Mechanism);
  - (b) [ETC 18] Special Condition [x] (Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty);
  - (c) [ETC27] Special Condition [x] (Specified financial adjustments – Transmission Owner) and/or [ETC65] Special Condition [x] (Specified financial adjustments – System Operator);
  - (d) [ETC28] Special Condition [x] (Arrangements for the recovery of uncertain costs) and/or Special Condition [ETC 117] (Arrangements for the recovery of SO uncertain costs);
  - (e) [ETC39] Special Condition [x] (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure);
  - (f) [ETC 41] Special Condition [x] (Network Development Policy and Wider Works Volume Driver; [NGET only]
  - (g) [ETC47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and/or [ETC66] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator);
  - (h) [ETC 55] Special Condition [x] (Baseline generation connection outputs and generation connections volume driver);
  - (i) [ETC64] Special Condition [x] (Legacy price control adjustments – Transmission Owner) and/or [ETC 67] Special Condition [x] (Legacy price control adjustments – System Operator);
  - (j) [ETC 122] Special Condition [x] (Undergrounding uncertainty mechanism); [NGET only]
  - (k) [ETC 123] Special Condition [x] (Demand related infrastructure volume driver); [NGET only]; and
- 26.7 Step 2: The Authority will cause the ET1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the PCFM Variable Values Table(s) for the licensee, where and to the extent required.
- 26.8 Step 3: The Authority will identify and record the values of the terms MOD<sub>t</sub> and SOMOD<sub>t</sub> calculated as a result of Step 2 and shown as outputs of the ET1 Price Control Financial Model. These values will include the effects of any revised PCFM Variable Values which, for the avoidance of doubt, shall not have any retrospective effect on any previously directed value of the term MOD or SOMOD.
- 26.9 Step 4: The Authority will give a direction to the licensee, in accordance with Part B of this condition, setting out the values for the terms MOD<sub>t</sub> and SOMOD<sub>t</sub> which are to be used in the formulae set out in Special Conditions ETC 20 and ETC 12 for the purposes of ascertaining the values of the terms BR<sub>t</sub> and SOBR<sub>t</sub> respectively.

## Part B: Direction of the values of MODt and SOMODt

- 26.10 The values of the terms MOD and SOMOD for Relevant Year t will be directed by the Authority no later than 30 November in each Relevant Year t-1.
- 26.11 If, for any reason, the Authority does not direct a value for one or both of the terms MODt or SOMODt by 30 November in any Relevant Year t-1, then the Annual Iteration Process set out in Part A of this condition shall not have been completed and the provisions set out in paragraphs 26.12 and 26.13 shall apply.
- 26.12 The Authority shall complete the Annual Iteration Process set out in Part A of this condition as soon as is reasonably practicable after 30 November in the Relevant Year t-1 concerned by directing values for MODt and SOMODt.
- 26.13 In the intervening period (between the 30 November in the Relevant Year t-1 concerned and the making of a direction under paragraph 26.12), the value of MODt and/or SOMODt shall be held to be the values shown for MODt and/or SOMODt, in the Price Control Financial Model in its state following the last completed Annual Iteration Process which, for the avoidance of doubt, shall exclude the effect of any functional modifications under Special Condition ETC 57 made after the completion of that Annual Iteration Process.

## Part C: Interpretation

- 26.14 In this condition the following defined terms have the respective meanings given to them below:

Annual Iteration Process

means in relation to the ET1 Price Control Financial Model, the process set out in this condition, which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.

ET1 Price Control Financial Handbook

means the document of that name that was published by the Authority under reference number [●]/12 on [●] December 2012 that:

- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time.

ET1 Price Control Financial Methodologies

means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process.

ET1 Price Control Financial Model

means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [●] December 2012:

- (a) (that is represented by a workbook in Microsoft Excel<sup>®</sup> format maintained under that name (with a Relevant Year suffix) on the Authority's website; and
- (b) (that the Authority will use to determine values for the terms MOD<sub>t</sub> and SOMOD<sub>t</sub> through the application of the Annual Iteration Process.

26.15 For the avoidance of doubt, neither:

- (a) an Annual Iteration Process for the ET1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor
- (b) a change to the Relevant Year included in the name of and text within the ET1 Price Control Financial Model (as referred to at paragraphs 57.18(b) and (c) of Special Condition ETC57,

shall constitute a modification of the ET1 Price Control Financial Model within the meaning of Part B of Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

26.16 This condition should be read and construed in conjunction with [ETC 57]Special Condition [x](Governance of ET1 Price Control Financial Instruments).

## **[ETC 57] Special Condition [x]. Governance of ET1 Price Control Financial Instruments**

### **Introduction**

- 57.1 The purpose of this condition is to establish a change control framework for each of the following ET1 Price Control Financial Instruments, namely:
- (a) the ET1 Price Control Financial Handbook, which contains the ET1 Price Control Financial Methodologies; and
  - (b) the ET1 Price Control Financial Model.
- 57.2 Each of the ET1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 57.3) may only be modified by the Authority in accordance with the provisions of Parts A and B below.
- 57.3 Parts A and B are without prejudice to the powers of the Authority to modify any part of this condition (including any ET1 Price Control Financial Instrument) under sections 11A and 11B of the Act.
- 57.4 For the purposes of this condition, Relevant Year  $t$  means the Relevant Year in which the values for the terms MOD and SOMOD, calculated through a particular Annual Iteration Process, are used in the formulae set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and [ETC 12] Special Condition [x] (Restriction on System Operator Internal Revenue) respectively, and references to Relevant Year  $t-1$  are to be construed accordingly.

### **Part A: Assessment of the likely impact of an intended modification**

- 57.5 Before initiating any modification of an ET1 Price Control Financial Instrument, the Authority must assess whether that modification would be likely to have a significant impact on any of the following persons:
- (a) the licensee;
  - (b) any other electricity transmission licensee in whose licence a condition equivalent to this one has effect;
  - (c) any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
  - (d) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.
- 57.6 In making the assessment required by paragraph 57.5, the Authority must:
- (a) have particular regard to any impact which an intended modification would be likely to have on any component of the licensee's allowed revenues or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and

- (b) in respect of modifications to the ET1 Price Control Financial Model, have regard to any views expressed by the ET1 Price Control Financial Model Working Group.

- 57.7 For the purposes of paragraph 57.5, it is to be presumed (subject to paragraph 57.8) that a modification which serves to correct a manifest error contained in an ET1 Price Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.
- 57.8 The presumption established by paragraph 57.7 is without prejudice to the licensee's right under paragraph 57.14 to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 57.5 or 57.6(a).

### **Part B: Circumstances in which a modification may (and may not) be made**

- 57.9 If, having carried out the required assessment under Part A above, the Authority considers that an intended modification of an ET1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 57.5, it may modify that instrument in accordance with paragraphs 57.10 to 57.13 below.
- 57.10 Before making any modification of an ET1 Price Control Financial Instrument under this Part B, the Authority must give the licensee and all electricity transmission licensees in whose licence a condition equivalent to this one has effect a notice that:
- (a) sets out the proposed modification and the date from which the Authority proposes that it should have effect;
  - (b) explains why in the Authority's opinion the modification is necessary;
  - (c) sets out the Authority's view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 57.5; and
  - (d) specifies a period of at least 28 days from the date of the notice within which any representations with respect to the proposal may be made.
- 57.11 The Authority must publish any notice issued under paragraph 57.10 on its Website and place a copy on the public register file for the licensee.
- 57.12 The Authority must consider any representations that are duly made and not withdrawn before deciding whether to proceed with the modification under this Part B.
- 57.13 Having complied with paragraphs 57.10 to 57.12, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism by which that date is to be determined).
- 57.14 If the licensee states/demonstrates in representations made under paragraph 57.10(d) that it reasonably considers that the proposed modification would be likely to have a significant impact of the type referred to in paragraph 57.5 or 57.6(a), the Authority may not make the modification under this Part B.

### **Part C: Availability and updating of ET1 Price Control Financial Instruments**

- 57.15 This Part C has effect in relation to the publication and availability of the ET1 Price Control Financial Handbook, including the constituent ET1 Price Control Financial Methodologies and the ET1 Price Control Financial Model.
- 57.16 The Authority must ensure that any modifications of the ET1 Price Control Financial Handbook, including the constituent ET1 Price Control Financial Methodologies, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Handbook maintained on the Authority's Website.
- 57.17 The Authority must ensure that any modifications of the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Model maintained on the Authority's Website.
- 57.18 Without limiting the general effect of paragraph 57.17, the Authority must by not later than 30 November in each Relevant Year t-1:
- (a) publish on its Website, in Microsoft Excel ® format, the version of the ET1 Price Control Financial Model that will be used to determine the value of the terms MOD and SOMOD with respect to Relevant Year t for the purposes of ETC 20] Special Condition [x] and [ETC 12] Special Condition [x];
  - (b) ensure that the electronic name of the file is "ET1 Price Control Financial Model" followed by the Relevant Year t-1 expressed in the format 20XX-XX;
  - (c) ensure that the words "ET1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November" followed by the Relevant Year t-1 expressed in the format 20XX-XX are included as text within the file itself; and
  - (d) publish an up-to-date schedule of any modifications that have been made to the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.

#### **Part D: Interpretation**

- 57.19 This condition should be read and construed in conjunction with [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).
- 57.20 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition ETC 26 (Annual Iteration Process for the ET1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.
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ET1 Price Control Financial Handbook	means the document of that name that was published by the Authority under reference number [●]/12 on [●] December 2012 that:
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- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Methodologies

means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) (together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process.

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Model

means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [●] December 2012:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Relevant Year suffix) on the Authority's Website; and
- (b) that the Authority will use to determine the values of the terms MOD and SOMOD through the application of the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

ET1 Price Control Financial Model Working Group

means the working group identified in and whose terms of reference are set out in chapter 1 of the ET1 Price Control Financial Handbook.

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**STANDARD CONDITIONS**

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## **Standard Condition B1. Regulatory Accounts [ETC31]**

### **Introduction**

1. This condition applies to regulatory accounts prepared for financial years commencing on or after 1 April 2013 for the purpose of ensuring that the licensee:
  - (a) prepares and publishes Regulatory Accounts within the meaning of Part A below; and
  - (b) maintains (and ensures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements for the consolidated transmission business as are necessary to enable the licensee to comply with that obligation.

### **Part A: Preparation of Regulatory Accounts**

2. For the purposes of this condition, but without prejudice to the requirements of Part C below, the licensee must prepare Regulatory Accounts for the consolidated transmission business for each financial year, which should be prepared under the same Applicable Accounting Framework as the most recent or concurrent statutory accounts of the licensee.
3. Except and so far as the Authority otherwise consents, the licensee must comply with the obligations imposed by the following paragraphs of this Part A in relation to the preparation of Regulatory Accounts.
4. The licensee must keep or cause to be kept, for a period approved by the Authority, but not less than the period referred to in section 388(4)(b) of the Companies Act 2006 and in the manner referred to in that section, such accounting records and other records as are necessary to ensure that all the revenues, costs, assets, liabilities, reserves, and provisions of, or reasonably attributable to, the consolidated transmission business are separately identifiable in the accounting records of the licensee (and any affiliate or related undertaking of the licensee) from those of any other business of the licensee.

5. The Regulatory Accounts are to be prepared on a consistent basis from the accounting records and other records referred to in paragraph 4 in respect of each Financial Year, and must comprise:
  - (a) the matters set out in paragraph 6; supported by
  - (b) the matters mentioned in paragraph 7; and
  - (c) the statement required by paragraph 8.
  
6. The matters to which paragraph 5(a) refers are:
  - (a) an income statement and a statement of comprehensive income (or, as appropriate, a profit and loss account and, as appropriate, a statement of total recognised gains and losses);
  - (b) a statement of changes in equity, if appropriate;
  - (c) a statement of financial position (or, as appropriate, a balance sheet);
  - (d) a statement of cash flows (or, as appropriate, a cash flow statement);
  - (e) a Corporate Governance Statement in respect of the consolidated transmission business;
  - (f) a Directors' Report in respect of the consolidated transmission business; and
  - (g) a Business Review in respect of the consolidated transmission business.
  
7. The matters to which paragraph 5(b) refers are set out in explanatory notes to the Regulatory Accounts that:
  - (a) provide a summary of the accounting policies adopted by the licensee for the purpose of producing Regulatory Accounts in respect of the consolidated transmission business;
  - (b) comply with the requirements applicable for preparing annual accounts in Chapter 4 of Part 15 of the Companies Act 2006 and of the reporting requirements of the Applicable Accounting Framework in respect of the consolidated transmission business; and
  - (c) provide Segmental Information for each of the Transmission Business Activities of the licensee.

## **Part B: Bases of charge or apportionment**

8. Subject to paragraph 9, the licensee must include within its Regulatory Accounts, a statement in respect of the consolidated transmission business that shows separately and in appropriate detail the amount of any revenue, cost, asset, liability, reserve, or provision which has been:
  - (a) charged from any Ultimate Controller of the licensee, or from any subsidiary of such Ultimate Controller (other than the licensee or its subsidiaries), in relation to the provision of goods or services to the licensee; or
  - (b) charged from the licensee, or from any subsidiary of the licensee, in relation to the provision of goods or services to any Ultimate Controller of the licensee, or to any subsidiaries of such Ultimate Controller (other than the licensee or its subsidiaries); or
  - (c) determined by apportionment or allocation between the consolidated transmission business and any other business of the licensee or affiliate or related undertaking (and, where this sub-paragraph applies, the statement must include a description of the basis of the apportionment or allocation).
9. The requirements of paragraph 8 apply only in respect of goods and services received or supplied for the purposes of the consolidated transmission business.
10. Unless the Authority so specifies in directions issued for the purposes of this condition, or with the Authority's prior written consent, the licensee must not in relation to the Regulatory Accounts in respect of any financial year change the bases of charge, apportionment, or allocation referred to in paragraph 8 from those applied in respect of the immediately preceding financial year.
11. Where the licensee has, in accordance with paragraph 10 above, changed its bases of charge, apportionment, or allocation or changed any of its accounting policies or the manner of their application from those adopted for the immediately preceding financial year, then the licensee must, if so directed by the Authority, in addition to preparing Regulatory Accounts on the changed bases that it has adopted, also prepare such Regulatory Accounts by reference to the bases, accounting policies, and manner of application that applied in respect of the immediately preceding financial year.

### **Part C: Consistency with statutory accounts**

12. Regulatory Accounts and information prepared under Parts A and B above must, so far as is reasonably practicable and except so far the Authority otherwise consents, having regard to the purposes of this condition:
  - (a) have the same content and format as the most recent or concurrent statutory accounts of the licensee prepared under Part 15 of the Companies Act 2006; and
  - (b) comply with all relevant accounting and reporting standards currently in force under the Applicable Accounting Framework as set out in Part 15 of the Companies Act 2006.

### **Part D: Audit and delivery of Regulatory Accounts**

13. Except and so far as the Authority otherwise consents, the licensee must:
  - (a) procure an audit by an Appropriate Auditor of such parts of its Regulatory Accounts and the Directors' Report and Business Review as is specified in the Companies Act 2006 as being required to be so audited if the licensee were a Quoted Company and those accounts were the statutory accounts of the licensee drawn up to 31 March each Financial Year and prepared under Part 15 of the Companies Act 2006;
  - (b) procure a report by an Appropriate Auditor, addressed to the Authority, that states whether in the Auditor's opinion those accounts fairly present the financial position, financial performance, and cash flows of or reasonably attributable to the consolidated transmission business in accordance with the requirements of this condition; and
  - (c) deliver those accounts and the Auditor's report required under paragraph 16 of this licence condition to the Authority as soon as is reasonably practicable, and in any event before publication of such accounts under Part G below and not later than 31 July following the end of the Financial Year to which the Regulatory Accounts relate.

## **Part E: Terms of appointment of the Appropriate Auditor**

14. For the purposes of Part D above, the licensee must, at its own expense, enter into a contract of appointment with an Appropriate Auditor which includes a term requiring that the audit of the licensee's Regulatory Accounts must be conducted by that Auditor in accordance with all such relevant auditing standards in force on the last day of the Financial Year to which the audit relates as would be appropriate for accounts prepared in accordance with the provisions of Part 15 of the Companies Act 2006.

## **Part F: Agreed Upon Procedures for the Appropriate Auditor**

15. The licensee must at its own expense enter into a contract of appointment with an Appropriate Auditor for the completion of Agreed Upon Procedures that are to apply for the purposes of enabling that Auditor to review:
  - (a) the licensee's compliance with its obligations in respect of the prohibition of cross-subsidy and discrimination generally and, in particular where they apply to the licensee, under standard conditions B5 (prohibition of Cross subsidies), C7 (Prohibition on discrimination between users), C8 (Requirement to offer terms), and D5 (Prohibition on engaging in preferential or discriminatory behaviour) of this licence; and
  - (b) the statement that by virtue of Part B above is required to be included in the Regulatory Accounts concerning the bases of charge, apportionment, and allocation applied by the licensee in relation to those accounts.
16. The contract of appointment must require that the Agreed Upon Procedures are conducted in relation to each Financial Year and that the licensee will arrange for the Appropriate Auditor to address a report to the Authority by 31 July following the end of each such year which:
  - (a) states that he has, in a manner consistent with the relevant auditing standards, completed the Agreed Upon Procedures issued by the Authority in respect of the Financial Year under report; and
  - (b) sets out his findings.

17. If the Authority is satisfied that the Appropriate Auditor's report submitted under this Part F demonstrates that the licensee has complied with the obligations to avoid discrimination and cross-subsidies that are imposed on the licensee, the report is to be deemed to represent the results of an audit of those obligations.

#### **Part G: Publication and provision of Regulatory Accounts**

18. Unless the Authority, after consulting with the licensee, otherwise directs, the licensee must publish its Regulatory Accounts (excluding the statement required to be included in them by virtue of Part B above and any other information agreed by the Authority to be confidential):
  - (a) as a stand-alone document in accordance with this condition;
  - (b) by 31 July after the end of the Financial Year to which the accounts relate;
  - (c) on, and in a way that is accessible from, its website or that of an affiliate or ultimate controller of the licensee provided that link is both clear and readily accessible; and
  - (d) in any other manner which, in the opinion of the licensee, is necessary to secure adequate publicity for the accounts.
19. A copy of the Regulatory Accounts must be provided free of charge:
  - (a) to [Consumer Focus] (or any successor entity), no later than the date on which the Regulatory Accounts are published; and
  - (b) to any person requesting a copy.

#### **Part H: Interpretation and definitions**

20. Any consent or direction by the Authority given in relation to a provision of this condition may be given in relation to some or all of the requirements of the relevant paragraph and subject to such conditions as the Authority considers appropriate or necessary having regard to the purposes of this condition.
21. The requirement under paragraph 6 of this condition for the licensee to include a Business Review, a Corporate Governance Statement, and a Directors' Report in its

Regulatory Accounts is to be read as if the requirement applied to the licensee as a Quoted Company, whether or not it is such a company, such that:

- (a) the Business Review has the coverage and content of the business review that a Quoted Company is required to prepare under section 417 of the Companies Act 2006;
- (b) the Corporate Governance Statement has the coverage and content of a corporate governance statement that a Quoted Company is required to prepare under the UK Corporate Governance Code issued under the UK Listing Authority's Listing Rules and Interpretations on corporate governance; and
- (c) the Directors' Report has the coverage and content of the directors' report that a Quoted Company is required to prepare under sections 415, 416, 417, 418(2), and 419(3) and (4) of the Companies Act 2006.

10. For the purposes of this condition:

**Agreed Upon Procedures**

means procedures from time to time agreed between the Authority, the Appropriate Auditor, and the licensee for the purpose of enabling the Appropriate Auditor to review and report to the Authority on matters relating to the requirements referred to at paragraph 16 of this condition.

**Applicable Accounting Framework**

means:

- (a) in accordance with section 396 of the Companies Act 2006 ("Companies Act individual accounts"), or in accordance with international accounting standards ("IAS individual accounts") or
- (b) in accordance with section 403 Companies Act group accounts, or IAS group accounts.

**Appropriate Auditor**

means:

- (a) in the case of a licensee that is a company



within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;

- (b) in the case of any other licensee that is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to those of Chapter 2 of Part 16 of that Act, a person so appointed; and
- (c) in any other case, a person who is eligible for appointment as a company auditor under Part 42 of that Act.

**Quoted Company**

has the meaning given to that term in section 385 of the Companies Act 2006.

**Segmental Information**

means such financial and descriptive information in respect of the Transmission Business Activities of the licensee as would be required to be disclosed under International Financial Reporting Standard 8 (or Statement of Standard Accounting practice 25, or successor standards under any Applicable Accounting Framework) if each of those activities was an operating segment (or reportable segment) of the licensee within the meaning of the respective standards.

**Transmission Business Activities**

means the following permitted purpose activities of the licensee as defined in Condition A1 in each case to the extent applicable:

- (a) the Transmission Owner Activity;
- (b) the system operator activity (where it performs this activity);
- (c) any de minimis activity within the meaning

of paragraph 4 of Standard Condition B6 (Restriction of activity and financial ring-fencing); and

- (d) any other activities to which this licence relates and to which the Authority has given its consent in accordance with paragraph 3(d) of Standard Condition B6 (Restriction on activity and financial ring-fencing) and clearly describing each service provided.

**Transmission Owner Activity**

means the activity permitted to the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section D (transmission owner standard conditions) Direction and where Section D remains in effect (whether or not subject to any terms included in a Section D (transmission owner standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject);

**Ultimate Controller**

This term is defined in the Standard Special Condition A3.

For the avoidance of doubt, the licensee should prepare Regulatory Accounts for the consolidated transmission business for the Financial Year commencing on or after 1 April 2012 in accordance with the licence condition in force as at 31 March 2013.

**Standard Condition B2. ~~Change of financial year~~ Not Used [ETC  
136]**

[Entire current text to be deleted]

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## Standard Condition B4. Provision of information to the Authority [ETC75]

1. Subject to paragraphs 5 and 7, the licensee shall furnish to the Authority, in such manner and at such times as the Authority may reasonably require, such information and shall procure and furnish to it such reports, as the Authority may reasonably require or as may be necessary for the purpose of performing:
  - (a) any functions transferred to or conferred on it by or under the Utilities Act 2000; and ~~[The Utilities Act includes reference to the Energy Acts and therefore references can be removed from 1(b)]~~
  - (b) the regulatory functions conferred on the Authority by other statute or enactment ~~-or under the Act, the Energy Act 2004, and the Energy Act 2008;~~ and
  - ~~(c) any functions transferred to or conferred on it by or under the Utilities Act 2000.~~
2. The licensee shall procure from each company or other person which the licensee knows or reasonably should know is at any time an ultimate controller of the licensee a legally enforceable undertaking in favour of the licensee in a form specified by the Authority that the ultimate controller ("the information covenantor") will give to the licensee, and will procure that any person (including, without limitation, a corporate body) which is a subsidiary of, or is controlled by, the information covenantor (other than the licensee and the licensee's subsidiaries) will give to the licensee, all such information as may be necessary to enable the licensee to comply fully with the obligation imposed on it in paragraph 1. Such undertaking shall be obtained within 7 days of such corporate body or other person in question becoming an ultimate controller of the licensee and shall remain in force for so long as the licensee remains the holder of this licence and the information covenantor remains an ultimate controller of the licensee.
3. The licensee shall deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with the obligation to procure undertakings pursuant to paragraph 2, and shall comply with any direction from the Authority to enforce any undertaking so procured.

4. The licensee shall not, ~~save with the consent~~ except and so far as ~~in writing of the Authority~~ otherwise consents, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or, where the ultimate controller is a corporate body, any of the subsidiaries of such a corporate ultimate controller (other than the subsidiaries of the licensee) at a time when:
  - (a) an undertaking complying with paragraph 2 is not in place in relation to that ultimate controller; or
  - (b) there is an unremedied breach of such undertaking; or
  - (c) the licensee is in breach of the terms of any direction issued by the Authority under paragraph 3 of this condition.
5. The licensee shall not be required by the Authority to furnish it under this condition with information for the purpose of the exercise of its functions under section 47 of the Act.
6. The licensee shall, if so requested by the Authority, give reasoned comments on the accuracy and text of any information or advice (so far as relating to its activities as the transmission licensee) which the Authority proposes to publish pursuant to section 48 of the Act.
7. This condition shall not require the licensee to produce any documents or give any information which it could not be compelled to produce or give in evidence in civil proceedings before a court.
8. In ~~The power of the Authority to call~~ ing for information under this condition ~~is in addition to the power of the Authority~~ may ~~to call~~ for information under or pursuant to any other condition. There shall be a presumption that the provision of information in accordance with any other condition is sufficient for the purposes of that condition, but that presumption shall be rebutted, if the Authority states in writing that in its opinion such further information is, or is likely to be, necessary to enable it to exercise functions under the condition in question.

## **Standard Condition B15. Regulatory Instructions and Guidance [ETC74]**

### **Introduction**

1. The purpose of this condition is to set out the scope, contents, and common governance arrangements for the Regulatory Instructions and Guidance ("RIGs") published by the Authority pursuant to this condition.
2. The RIGs are the primary means by which the Authority directs the licensee to collect and provide the information to the Authority that the Authority needs to enable it to administer the Special Conditions of this licence and, where not referenced in the licence, the Final Proposals.

### **Part A: Licensee's obligations under this condition**

3. Unless and so far as the Authority otherwise consents, the licensee must have in place and maintain appropriate systems, processes, and procedures to enable it:
  - to estimate, measure, and record the information detailed in the RIGs ("Specified Information"); and
  - to provide such information to the Authority in respect of such periods and within such timeframes as are specified in the RIGs.
4. To facilitate compliance with paragraph 3, the accounting records and other records kept by the licensee with respect to the Specified Information must:
  - be so arranged as to ensure that such information can be separately identified and reasonably attributed as between the licensee's business and the business of any Affiliate or Related Undertaking of the licensee; and
  - be maintained for a period of eight years, or such shorter period as set out in the RIGs, from the date that they are made.

### **Part B: Scope and content of the RIGs**

5. Subject to paragraphs 6 and 7, the matters that may be included, or for which provision may be made, in the RIGs are:
  - (a) instructions and guidance on the establishment of systems, processes, procedures, and ways for recording and providing Specified Information;

- (b) instructions and guidance on the standards of accuracy and reliability that are applicable to the recording of Specified Information (including different classes of such information);
  - (c) a timetable for the development of such systems, processes, and procedures as are required to achieve such standards;
  - (d) the methodology for calculating or deriving numbers comprising Specified Information;
  - (e) provision with respect to the meaning of words and phrases used in defining Specified Information;
  - (f) requirements as to the form and manner in which, or the frequency with which, Specified Information must be recorded;
  - (g) requirements as to the form and manner in which, or the frequency with which, Specified Information must be provided to the Authority;
  - (h) requirements as to which (if any) of the Specified Information is to be subject to audit, the terms on which an auditor is to be appointed by the licensee for that purpose, and the nature of the audit to be carried out by that person;
  - (i) requirements as to the circumstances in which the Authority may appoint an Examiner to examine the recording of the Specified Information by the licensee;
  - (j) a statement on whether and to what extent each category of the Specified Information is required for the purposes of the RIGs; and
  - (k) provision about how the Authority intends to monitor, assess, and enforce compliance with the RIGs (as to which, see also Part E below).
6. The provisions of the RIGs must not exceed what is reasonably required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions.
7. No Specified Information may exceed what could be requested from the licensee by the Authority under paragraph 1 of standard condition B4 (Provision of Information to the Authority) [excluding any reference to paragraph 8 of that condition].

### **Part C: Development and modification of the RIGs**

8. The Authority may issue new RIGs or modify any existing RIGs by issuing a direction for that purpose to all licensees in whose licence this condition has effect.
9. Data collected in Relevant Year 2012/2013 should be reported according to the relevant reporting requirements provided for in the licence as in force in 2012/2013.
10. A direction issued by the Authority under paragraph 8 shall be of no effect unless the Authority has first:
  - (a) Given notice to all licensees in whose licence this condition has effect that it proposes to issue new RIGs or (as the case may be) to modify the RIGs:
    - (i) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
    - (ii) setting out the text of the RIGs to be issued or (as the case may be) modified, and the Authority's reasons for proposing to issue or modify it; and
    - (iii) specifying the time (which must not be less than a period of 28 days from the date of the notice) within which representations in response to such proposals may be made; and
  - (b) considered any representations in response to the notice that are duly made and not withdrawn.
11. The requirements for the issuing of new RIGs or modification of existing RIGs set out in paragraph 10 may be satisfied by actions taken by the Authority before as well as after the coming into effect of this condition.

### **Part D: Requirements for new or more detailed information**

12. This Part D applies if any modified or new RIGs have the effect of introducing a requirement to provide:
  - (a) a new category of Specified Information; or
  - (b) an existing category of Specified Information to a greater level of detail, which has not previously been collected by the licensee, whether under the provisions of the RIGs or otherwise.



13. Where this Part D applies, the licensee may provide estimates to the Authority in respect of the relevant category of Specified Information for any Relevant Year specified by the Authority.
14. The estimates that are mentioned in paragraph 13 may be derived from such other information available to the licensee as may be appropriate for that purpose.

**Part E: Compliance with the provisions of the RIGs**

15. The licensee must at all times comply with the provisions of the RIGs for the time being in force pursuant to this condition.
16. Nothing in this condition requires the licensee to provide any documents that it could not be compelled to produce or give in evidence in civil proceedings before a court.

**Part F: Interpretation**

17. For the purposes of this condition:

**Examiner**

means, in relation to the RIGs, a person whose degree of knowledge and experience of the matters that are the subject of the RIGs will enable him to properly carry out and complete the tasks required of him under the terms of his nomination by the Authority pursuant to the provisions of the RIGs.

**Specified Information**

means information (or a category of information) that is so described or defined in the RIGs.

**Standard Condition B16. ~~Price Control Revenue Reporting and Associated Information Not Used [ETC 74]~~**

[Entire current text to be deleted]

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## **Standard Condition B17. Methodology for Network Output Measures [ETC73]**

### **Introduction**

1. The purpose of this condition is to ensure that the licensee has in place a Methodology for Network Output Measures that achieves the objectives set out in Part B of this condition.

### **Part A: Licensee's general obligations under this condition**

2. The licensee must at all times have in place and maintain a Methodology for Network Output Measures ("the NOMs Methodology") that:
  - (a) facilitates the achievement of the NOMs Methodology Objectives set out in Part B below;
  - (b) enables the objective evaluation of the Network Output Measures set out in Part C below;
  - (c) is implemented by the licensee in accordance with the provisions of Part D below; and
  - (d) may be modified from time to time in accordance with the provisions of Part E below.

### **Part B: The NOMs Methodology Objectives**

3. The NOMs Methodology Objectives as referred to in paragraph 2(a) include the following objectives:
  - (a) the monitoring of the licensee's performance in relation to the development, maintenance and operation of an efficient, co-ordinated and economical system of electricity transmission;
  - (b) the assessment of historical and forecast network expenditure on the licensee's transmission system;
  - (c) the comparative analysis of performance over time between:
    - (i) geographic areas of, and network assets within, the licensee's transmission system;
    - (ii) the licensee's transmission system and other transmission systems forming part of the National Electricity Transmission System;

- (iii) the National Electricity Transmission System and Transmission Systems outside Great Britain; and
- (iv) the National Electricity Transmission System and Distribution Systems within Great Britain;
- (d) the communication of relevant information about the licensee's transmission system to the Authority and other interested parties in an accessible and transparent manner; and
- (e) the assessment of customer satisfaction derived from the services provided by the licensee as part of its transmission business.

**Part C: The NOMs methodology**

4. The NOMs Methodology must be designed to enable the evaluation of:
  - (a) the Network Assets Condition Measure, which relates to the current condition of the licensee's Network Assets, the reliability of the licensee's Network Assets, and the predicted rate of deterioration in the condition of the Network Assets, which is relevant to assessing the present and future ability of the Network Assets to perform their function;
  - (b) the Network Risk Measure, which relates to the overall level of risk to the reliability of the licensee's transmission system that results from the condition of the Network Assets and the interdependence between the Network Assets;
  - (c) the Network Performance Measure, which relates to those aspects of the technical performance of the licensee's transmission system that have a direct impact on the reliability and cost of services provided by the licensee as part of its transmission business; and
  - (d) the Network Capability Measure, which relates to the level of the capability and utilisation of the licensee's transmission system at entry and exit points and to other network capability and utilisation factors;

collectively the "Network Output Measures" to which paragraph 2(b) refers.
5. The licensee must set out in its NOMs Methodology the categories of data that are to be used and the methodology that is to be applied to such data to derive each of the Network Output Measures.

#### **Part D: Implementation of the NOMs Methodology**

6. Except where the Authority otherwise consents in writing, the licensee must provide it with:
  - (a) such information (whether historic, current, or forward-looking) about the Network Output Measures; supported by
  - (b) such relevant other data and examples of network modelling, as may be specified for the purposes of this condition in any Regulatory Instructions and Guidance ("RIGs") that have been issued by the Authority in accordance with the provisions of standard condition [ETC74] (Regulatory Instructions and Guidance).
7. The provision of information and other requirements set out in paragraph [6 (a) and (b)] must be provided in such manner, in respect of such periods, and within such timeframes as may be specified in the RIGs to which that paragraph refers.

#### **Part E: Modification of the NOMs Methodology**

8. The licensee must from time to time, and at least once every year, review the NOMs Methodology to ensure that it facilitates the achievement of the NOMs Methodology Objectives.
9. The NOMs Methodology may be modified from time to time to facilitate better the achievement of the NOMs Methodology Objectives.
10. The licensee may make a modification to the NOMs Methodology, subject to paragraph 12, after:
  - (a) consulting with other transmission licensees to which this condition applies and with any other interested parties, allowing them a period of at least 28 days within which to make written representations with respect to the licensee's modification proposal; and
  - (b) submitting to the Authority a report that contains all of the matters that are listed in paragraph 11.
11. The matters to which paragraph 10(b) refers are the following:
  - (a) a statement of the proposed modification to the NOMs Methodology;
  - (b) a full and fair summary of any representations that were made to the licensee pursuant to paragraph 10(a) and were not withdrawn;

- (c) an explanation of any changes that the licensee has made to its modification proposal as a consequence of representations;
  - (d) an explanation of how, in the licensee’s opinion, the proposed modification, if made, would better facilitate the achievement of the NOMs Methodology Objectives;
  - (e) a presentation of the data and other relevant information (including historical data, which should be provided, where reasonably practicable, for a period of at least ten years prior to the date of the modification proposal) that the licensee has used for the purpose of developing the proposed modification;
  - (f) a presentation of any changes to the Network Replacement Outputs, as set out in the tables in Special Condition [ETC 133], that are necessary as a result of the proposed modification to the NOMs Methodology; and
  - (g) a timetable for the implementation of the proposed modification, including an implementation date (which must not be earlier than the date on which the period referred to in paragraph 12 would expire).
12. Where the licensee has complied with the requirements of paragraphs 10 and 11, the licensee shall implement the proposed modification to the NOMs Methodology unless the Authority, within 28 days after receiving the report submitted to it under paragraph 10(b), issues a direction to the licensee requiring it not to implement the proposed modification.
13. The Authority, after consulting with the licensee and any other interested parties, may direct the licensee to modify the NOMs Methodology in such manner, to such extent, and with effect from such time as may be specified in the direction.
14. The licensee must comply with the requirements of any direction given to it under paragraph 13.

**Part F: Interpretation**

15. For the purposes of this condition:

**Methodology for Network Output Measures**

means the methodology that was in place under this licence under the name of “network output measures methodology” in the form in which this licence was in force at 31 March 2013 or as subsequently amended

as provided for in this condition.

**Network Assets**

means the assets that collectively form the licensee's transmission system, and includes the principal components of those assets.

**Network Output Measures**

means the Network Assets Condition Measure, the Network Risk Measure, the Network Performance Measure, and the Network Capability Measure, each as defined in paragraph [4].

**NOMs Methodology**

means the methodology for Network Output Measures.

**NOMs Methodology Objectives**

means the objectives set out in Part B of this condition.

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## Standard Condition B17A Specification of Network Replacement Outputs [ETC 133]

Note for reviewers: This condition is simply to set out the NOMs outputs in the licence. If the outputs need to change (e.g. because of a change in the NOMs methodology as set out in ETC73/GTC73) then it is proposed to raise a licence modification to this condition.

### Introduction

- The purpose of this condition is to specify the Network Replacement Outputs the Licensee shall deliver during the price control period and the allowed expenditure associated with them.

### Part A: Specification of Network Replacement Outputs

- Table [x] gives details of the Network Replacement Outputs the licensee is required to deliver during RIIO-T1 that were specified at the start of the RIIO-T1 price control period.

**Table [x]: Allowed expenditure for Network Replacement Outputs [example]**

Asset categories		Units	Asset distribution based on replacement priority in 2012/13				Asset Register
			Replacement priority				
			RP1	RP2	RP3	RP4	
<b>400KV Network</b>							31/03/2013
1	Circuit Breaker	No. CB					
2	Transformer	No. TX					
3	Reactors	No. Reactors					
4	Underground Cable	Km					
5	OH line conductor	Km					



6	OH line fittings	Km					
7	OHL towers	No.					
<b>275KV Network</b>							
1	Circuit Breaker	No. CB					
2	Transformer	No. TX					
3	Reactors	No. Reactors					
4	Underground Cable	Km					
5	OH line conductor	Km					
6	OH line fittings	Km					
7	OHL towers	No.					
<b>132KV Network</b>							
1	Circuit Breaker	No. CB					
2	Transformer	No. TX					
3	Reactors	No. Reactors					
4	Underground Cable	Km					
5	OH line conductor	Km					
6	OH line fittings	Km					
7	OHL towers	No.					

3. The allowed expenditure figures to deliver the Network Replacement Outputs set out in Table [z] have been reflected in the licensee's opening base revenue allowances, set against the licensee's name in Appendix 1 to Special Condition ETC 20 (Restriction of Transmission Network Revenue).

**Table [z]: Allowed expenditure for Network Replacement Outputs**

<b>Relevant year</b>	<b>Allowed expenditure (£m 2009/10 prices)</b>
2013/14	XX.X
etc	

**Part B: Interpretation**

4. For the purposes of this condition:

**Network Replacement Outputs**

means the asset health and criticality profile that the licensee is required to deliver in its transmission area during RIIO-T1 that has been approved as part of the price control review and funded in its opening base revenues, as measured by the Network Output Measures.

**Network Output Measures (NOMs)**

has the meaning given to that term in paragraph [•] of [ETC 73] Standard Condition [B17] [Methodology for Network Output Measures.

## Standard condition B20. Data Assurance requirements [ETC 76]

### Introduction

1. This condition requires the licensee to undertake processes and activities for the purpose of reducing the risk, and subsequent impact and consequences, of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority.
2. This condition comes into effect in this licence on the earlier of:
  - (a) the date on which a Data Assurance Direction in accordance with the provisions of Part B below has effect; and
  - (b) 1 April 2015.

### Part A: Licensee's obligations under this condition

3. The licensee must:
  - (a) comply with the provisions of the Data Assurance Guidance ("the DAG") as if it were a condition of this licence;
  - (b) subject to paragraph 76.4, where required to provide Data under the provisions of this licence, provide accurate and complete Data;
  - (c) carry out a Risk Assessment in accordance with such provisions and timescales as are specified for that purpose in the DAG, and ensure that it has used its best endeavours to mitigate such risks as it has identified in that assessment;
  - (d) if directed by the authority, procure an independent review of its Data Assurance Activities in accordance with such provisions and timescales as are specified for that purpose in the DAG; and
  - (e) provide to the Authority, in accordance with such provisions and timescales as are specified for that purpose in the DAG, a report that contains:
    - (i) the results of the licensee's Risk Assessment;
    - (ii) a description of the Data Assurance Activities that the licensee intends to undertake during the coming year to mitigate the risks identified in that assessment;
    - (iii) a description of the Data Assurance Activities undertaken by the licensee during the preceding year; and
    - (iv) if required, the details and results of the independent review procured by the licensee of its Data Assurance Activities.
4. Data provided to the level of accuracy and reliability required under the relevant licence condition will be considered to be accurate and complete for the purposes of this condition.
5. The licensee must have in place and maintain appropriate systems, processes, and procedures to enable it to perform its obligations under paragraph 76.3.

6. The licensee must comply with any direction given by the Authority that requires it to carry out (or, where appropriate, to procure and facilitate the carrying out of) a specific Data Assurance Activity in accordance with the provisions of Part E.

**Part B: Requirement for consultation before giving a direction**

7. A Data Assurance Direction is of no effect unless, before issuing it, the Authority has first:
  - (a) given notice to all licensees in whose licence this condition has effect that it proposes to issue the direction:
    - (i) specifying the date on which it proposes that it should have effect;
    - (ii) setting out the text of the direction and the Authority's reasons for proposing to issue it; and
    - (iii) specifying the time (which must not be a period of less than 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made; and
  - (b) considered any representations or objections in response to the Notice that are duly made and not withdrawn.

**Part C: Scope and contents of the Data Assurance Guidance**

8. The Data Assurance Guidance ("the DAG") may from time to time revised by the Authority under Part D of this condition.
9. The purposes of the DAG are to establish a process under which the licensee must comply with its obligations as set out in paragraph 76.3.
10. Subject to paragraphs 76.12 and 76.13, the DAG may include, or make provision for, any of the following matters:
  - (a) the Data to which the Risk Assessment applies;
  - (b) the format of the Risk Assessment;
  - (c) the frequency with which and the timescales within which the Risk Assessment is required to be carried out;
  - (d) the format of the independent review that may be required of the licensee's Internal Audit Function and the associated reporting requirements;
  - (e) the format of the reporting requirements detailed in paragraph 76.3(e); and
  - (f) the frequency with which and the timescales within which the licensee should report on its Data Assurance Activities to the Authority.
11. Reference in paragraph 76.10 to the format of an assessment, review, or reporting requirement includes references to its form, layout, scope and content.
12. The provisions of the DAG must not exceed what is required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions and the impact on consumers of the potential errors.

13. No information to be provided to the Authority under or pursuant to the requirements of the DAG may exceed what could be requested from the licensee by the Authority pursuant to [condition SLC 24 of the gas [transmission/distribution] licence/ standard conditions B4 of the electricity transmission licence].

#### **Part D: Modification of Data Assurance Guidance**

14. The DAG may be modified by the Authority by direction.

15. A direction issued by the Authority under paragraph 76.14 is of no effect unless the Authority has first:

- (a) given notice to all licensees in whose licence this condition has effect that it proposes to issue the DAG or (as the case may be) to modify the DAG:
  - (i) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
  - (ii) setting out the text of the DAG to be issued or (as the case may be) modified and the Authority's reasons for proposing to issue or modify it; and
  - (iii) specifying the time (which must not be less than a period of 28 days from the date of the Notice) within which representations to such proposals may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

#### **Part E: Authority's power to specify Data Assurance Activity**

16. The Authority may, after consulting with the licensee, issue a direction, in accordance with the provisions of paragraph 76.17, requiring the licensee to carry out (or, where appropriate, to procure and facilitate the carrying out of) such Data Assurance Activity as may be specified in the direction.

17. The requirements for the direction under paragraph 76.16 are that it must:

- (a) contain a description of the Data Assurance Activity to be carried out by the licensee (or, where appropriate, by a person nominated by the Authority) for the purpose of ensuring the accuracy and completeness of Data provided to the Authority;
- (b) if it refers to a person nominated by the Authority, specify the steps that must be taken by the licensee to procure and facilitate the carrying out of that activity by that person;
- (c) contain a description of the Data to which the activity that is described in the direction must apply;
- (d) contain an explanation of why the Authority requires the licensee to carry out that activity;
- (e) specify any relevant dates by which that activity must be completed; and
- (f) specify the form and content of any information relating to that activity that the licensee must provide to the Authority.

## Part F: Derogations

18. The Authority may, after consulting with the licensee, give a direction (“derogation”) to the licensee that relieves it of its obligations under this condition to such extent, for such a period of time, and subject to such conditions as may be specified in the direction.

## Part G: Interpretation

19. For the purposes of this condition:

<b>Data</b>	means the relevant submissions to the Authority under this licence in respect of which the licensee must carry out a Risk Assessment, as specified in the DAG.
<b>Data Assurance Activity</b>	means, in respect of Data, the activity undertaken by the licensee (or a person nominated by the Authority, as the case may be) to address the risks identified in the Risk Assessment.
<b>Data Assurance Direction</b>	means a direction by the Authority to bring into effect this condition.
<b>Data Assurance Guidance</b>	shall be a document incorporated into this licence condition by way of licence modification.
<b>Risk Assessment</b>	means an assessment of the likelihood and potential impact of any inaccurate or incomplete reporting, or any misreporting, of Data by the licensee to the Authority under this licence.

## Condition C4: Charges for use of system [ETC 140]

1. The licensee shall:
  - (a) as soon as practicable after the date this condition comes into effect determine a use of system charging methodology approved by the Authority; and
  - (b) conform to the use of system charging methodology as modified in accordance with standard condition C5 (Use of system charging methodology) and standard condition C10 (Connection and Use of System Code (CUSC)), and subject to standard condition C13 (Adjustments to use of system charges (small generators)).
2. The licensee shall as soon as practicable after the date this condition comes into effect:
  - (a) prepare a statement approved by the Authority of the use of system charging methodology; and
  - (b) prepare, other than in respect of a charge which the Authority has consented need not so appear, a statement, in a form approved by the Authority, of use of system charges determined in accordance with the use of system charging methodology and in such form and in such detail as shall be necessary to enable any person to make (other than in relation to charges to be made or levied in respect of the balancing services activity) a reasonable estimate of the charges to which he would become liable for the provision of such services, and
  - (c) ~~and,~~ without prejudice to paragraph 5 of this condition or standard condition C10 (Connection and Use of System Code (CUSC)), if any change is made in the use of system charges to be so made other than in relation to charges to be made in respect of the balancing services activity, or the use of system charging methodology, the licensee shall, before the changes take effect, furnish the Authority with a revision of the statement of use of system charges (or if the Authority so accepts, with amendments to the previous such statement) and/or (as the case may be) with a revision of the statement of the use of system charging methodology, which reflect the changes.

3. Approvals by the Authority pursuant to paragraphs 1(a) and 2(a) may be granted subject to such conditions relating to further action to be undertaken by the licensee in relation to the use of system charging methodology better meeting the relevant objectives including, but not limited to, matters identified in any initial consultation by the Authority, as the Authority deems appropriate. Such conditions may include (but are not limited to) elements relating to the time by which action under the conditions must be completed.
4. With the exception of the requirement to comply with standard condition C13 (Adjustments to use of system charges (small generators)) provided for in paragraph 1(b), nothing in this condition shall affect the ability of the licensee to charge according to the statement issued pursuant to paragraph 2(b).
5. The licensee:
  - (a) shall give, except where the Authority consents to a shorter period, 150 days notice to the Authority of any proposals to change use of system charges other than in relation to charges to be made in respect of the balancing services activity, together with a reasonable assessment of the effect of the proposals (if implemented) on, those charges; ~~and~~
  - ~~(a)(b) except in so far as the Authority otherwise directs or consents, shall not make any changes to use of system charges more frequently than once in each financial year such that any such change shall take place on 1 April in a financial year; and~~
  - (c) where it has decided to implement any proposals to change use of system charges other than in relation to charges to be made in respect of the balancing services activity, shall give the Authority notice of its decision and the date on which the proposals will be implemented which shall not, without the consent of the Authority, be less than a month after the date on which the notice required by this sub-paragraph was given.
6. Unless otherwise determined by the Authority, the licensee shall only enter arrangements for use of system which secure that use of system charges will conform with the statement last furnished under paragraph 2(b) either:
  - (a) before it enters into the arrangements; or
  - (b) before the charges in question from time to time fall to be made,



and, for the purposes of this paragraph, the reference to the statement last furnished under paragraph 2(b) shall be construed, where that statement is subject to amendments so furnished before the relevant time, as a reference to that statement as so amended.

7. References in paragraphs 1, 2, 5 and 6 to charges do not include references to:
  - (a) connection charges; or
  - (b) to the extent, if any, to which the Authority has accepted they would, as respects certain matters, be so determined, charges determined by reference to the provisions of the CUSC.
8. The licensee may periodically revise the information set out in and, with the approval of the Authority, alter the form of the statements prepared in accordance with paragraph 2 and shall, at least once in every year that this licence is in force, make such revisions as may be necessary to such statements in order that the information set out in the statements shall continue to be accurate in all material respects.
9. The licensee shall send a copy of any such statement, revision, amendment or notice given under paragraphs 2 or 5 to any person who asks for any such statement, revision, amendment or notice.
10. The licensee may make a charge for any statement, revision, or amendment of a statement, furnished, or notice sent pursuant to paragraph 9 of an amount reflecting the licensee's reasonable costs of providing such statement, revision, amendment or notice which costs shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition.

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