

Electricity Act 1989
Section 11A(1)(a)

**MODIFICATION OF THE LICENCE NATIONAL GRID ELECTRICITY TRANSMISSION
WHO HOLDS AN
ELECTRICITY TRANSMISSION LICENCE GRANTED UNDER SECTION 6(1)(b) OF
THE ELECTRICITY ACT 1989**

Whereas –

1. National Grid Electricity Transmission (“NGET”) (“the Licence Holder”) is the holder of an electricity transmission licence (“the Licence”) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (“the Act”) to participate in the transmission of electricity for the term and subject to the conditions contained in the Licence.
2. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 31 May 2013 (“the Notice”) that it proposed to make modifications to the conditions set out in Schedule 1 of the Licence and by requiring any representations to the modification to be made on or before 28 June 2013.
3. In accordance with section 11A(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received two responses. All non-confidential responses have been placed on the Ofgem website.
5. The Authority has carefully considered in relation to the proposed modification all representations received. The Authority considers it necessary to make a number of (non substantive) changes to the modifications set out in the Notice to correct minor typographical errors and omissions. A list of changes to the modifications and the reasons for any changes to the modifications is set out in Schedule 3 attached to this Notice.
6. In accordance with section 49A of the Act the Authority sets out its reasons for making the licence modifications in Schedule 2.
7. The effect of the modifications is set out in Schedule 2.
8. Where an application for permission to appeal the Authority’s decision is made to the Competition Commission under section 11C of the Act, Rule 5.7 of the Competition Commission’s Energy Licence Modification Appeals Rules requires that appellant to send to any relevant licence holder who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. NGET is the only relevant licence holder for the purposes of section 11A. The meaning of ‘relevant licence holder’ is set out in section 11A of the Act.

Now therefore

In accordance with the powers contained in section 11(1)(a) of the Act, the Authority hereby modifies the licence of National Grid Electricity Transmission in the manner specified in attached Schedule 4. This decision will take effect on and from 31 August 2013.

This document constitutes notice of the reasons for the decision to modify the electricity transmission licence held by National Grid Electricity Transmission as required by section 49A of the Act.

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

.....
**Interim SP Duly authorised on behalf of the
Gas and Electricity Markets Authority, 4 July 2013**

Schedule 1

Part 1 - Special Conditions to be amended, updated and re-numbered (reasons for proposed amendments set out in Schedule 2 and revised text in Schedule 3)

Current Special Condition	To be amended, updated and renumbered as set out in Schedule 2
Special Condition AA5: Revenue Restriction Conditions: Definitions	Special Condition 1A :Definitions and Interpretation
Special Condition AA5: Revenue Restriction Conditions: Definitions	Special Condition 4B: Revenue Restriction Condition: Interpretation
Special Condition AA5A: Balancing Services Activity Revenue Restrictions	Special Condition 4C: Balancing Services Activity Revenue Restriction
Special Condition AA5B: Restriction on contracting with BSC parties	Special Condition 4D: Restriction on contracting with BSC parties

Part 2 – Proposed New Special Conditions to be inserted (reasons for new licence conditions set out in Schedule 2 and draft text set out in Schedule 3)

Proposed New Special Conditions	
Special Condition 4E	Requirement to Conduct a Review and Continue to Develop Enduring Models for Forecasting the Costs of Procuring and Using Balancing Services.
Special Condition 4F	Requirement to Develop Methodologies for the Purposes of Identifying a Target for the Costs of Procuring and Using Balancing Services
Special Condition 4G	Black Start Cost Incentive
Special Condition 4H	Wind Generation Forecasting Incentive
Special Condition 4I	Requirement to Report On System Transmission Losses [and Reactive Power]
Special Condition 4J	The System Operator Innovation Roll-out Mechanism

Part 3 –Special Conditions to be deleted (reasons for deletion set out in Schedule 2)

Special Condition	
Special Condition AA5I:	Requirement to conduct a Supplementary Review to develop and undertake a Scheme of Work to facilitate continuing development of a longer term balancing services activity restriction on external costs.
Special Condition AA5J	Requirement to develop the balancing services activity revenue restriction in relation to external costs for new Black Start service provision

Schedule 2

Reasons and effects of the proposed changes to NGET's transmission licence

Part 1 Special Conditions to be amended, updated and re-numbered

Special Condition 1A: Definitions and Interpretation

All the defined terms (new and existing) used in Special Condition 4C to 4J inclusive have been consolidated in Special Condition 1A. The effect of this modification is to improve clarity and ease of use of the Special Condition which relate to the Revenue Restriction Conditions.

Special Condition 4B: Revenue Restriction Conditions: Interpretations

All the defined terms (existing and new) have been consolidated in Standard Licence Condition C1 or Special Condition 1A. This amended special condition has been renumbered and updated (from the previous AA5) and now provides further points of interpretation in respect of Special Condition 4C to 4J inclusive. The effect of these modifications is to improve clarity and ease of use of the Special Condition which relate to the Revenue Restrictions Conditions.

Special Condition 4C: Balancing Services Activity Revenue Restriction

Scheme Duration

The proposed modifications are intended to update the targets and parameters which are used to incentivise NGET when carrying out its balancing services activities. To that end, the duration of the scheme will be set at two years (with retrospective application from 1 April 2013) with a provision to update certain variables at the mid-point of the scheme and a requirement to correct any errors to the models or model inputs at the earliest opportunity. The duration of the scheme was considered appropriate on the basis that the regulatory role of NGET changes post 2015 and the most effective way to incentivise NGET will need to be considered in this context. The provisions to update key model inputs or input methodology changes or correct any errors to the models or model inputs are intended to reduce the risk of significant cost over-runs or under-runs in the first year and could have a dampening effect on the incentives in the second year of the scheme.

Sharing Factor and Cap/Floor

The sharing factor was retained at 25% with a cap and floor of £25 million in each year of the scheme. Whilst the level of the sharing factor is not aligned with that set under RIIO-T1 the effect of the lower sharing factor is to provide greater protection against the risk of windfall gains or losses.

Income Adjusting Event

One of the triggers for an Income Adjusting Event (IAE) has been amended to clarify what may be considered as an IAE and the threshold has been raised from £2 million to £10 million. The effect of the amendments is to reduce the scope of application for IAEs to events which are unforeseen and lead to consequences beyond the reasonable control of the licensee.

Setting the Target

The scheme target is a combination of three factors:

- a target for NGET's energy balancing costs;
- a target for NGET's constraints management costs;
- a target for the costs incurred in procuring black start services.

The calculation of the energy balancing and constraints management cost target continue to be made up of two components; the models and the input methodology. Variables are input by NGET into the two models that are used by NGET to generate a scheme target. Under the new scheme there are three types of input:

- i. Ex ante - these are fixed at the start of the scheme;
- ii. Ex post- these variables are input at the start of the scheme but are updated at the end of the month with actual cost data;
- iii. Mid-scheme update inputs – this is a new input for the 2013-15 scheme. These variables are input into the model and fixed for the first year of the scheme but NGET can update them with revised data as part of the mid-scheme update provisions so as to take effect from 1 April 2014.

The effect of these modifications is to set the most appropriate balance between the risk of a lack of accuracy with the target and the incentive on the licensee to accurately forecast and coordinate the relevant variables.

Changes to the Methodologies

1. Constraints model discount factor

The methodology which underpins the constraints model (which sets the target for the costs of the balancing actions taken by NGET to manage constraints) assumes that all of the actions taken by NGET to manage constraints are taken in the balancing mechanism (BM). We believe that NGET should be taking a number of actions outside of the BM¹ as a matter of course or "business as usual" and which could go to reducing the level of balancing costs. As a result, the target against which NGET is incentivised should recognise these "business as usual" actions so that NGET is only rewarded if they go beyond this and conversely is penalised if they fail to meet the "business as usual" reductions. To that end, a discount factor to the outputs of the constraints model of 38% will be applied for the 2013-15 scheme. The effect of this discount factor is to set a benchmark for the expected level of 'business as usual' contracting that the licensee should have in place outside of the BM.

2. Balancing Mechanism pseudo prices

The energy model requires weighted average BM prices to be forecast in order to calculate a target for actions which NGET takes in the BM. In the last scheme, these volume weighted average prices (known as "pseudo prices") were an ex ante input. The model within which this component sits was identified as one of the main sources of error over the 2011-13 scheme. The BM pseudo prices also

¹ For example, the use of intertrips which automatically disconnect generation or demand from the transmission system under specific circumstances or the use of contracts with generators.

fed into other models as part of the Energy model package. Consequently, any errors in the BM pseudo prices had further repercussions. The condition will be amended to include BM pseudo prices as an ex post input into the energy model. The effect of this modification is to remove the potential for windfall gains or losses as a result of these errors but will also continue to incentivise NGET to identify the most economic course of action.

3. Transmission limit model input

In order to define a target for the costs of managing constraints on the system, NGET input the physical transmission limits of the network into the constraints model at the outset of the previous 2011-13 scheme (ie two years ahead). This will now be amended to enable NGET to input the transmission limits to one year at a time, this amendment represents a suitable balance between the level of risk to NGET and benefits to industry participants. The effect of the amendment will be to significantly reduce the potential for windfall gains or losses resulting from transmission limit inputs.

Special Condition 4D: Restriction on Contracting with BSC parties

The numbering of special condition has been amended and the relevant definitions moved to Special Condition 1A but the substance of this condition remains unchanged. We continue to enforce a restriction on the ability of the licensee to contract with BSC parties for contracts for the management of constraints which have terms related to the prices which the contracted party may submit into the BM. This is to ensure that there are no perverse incentives in place for the licensee in relation to the contracts which it signs.

Part 2 – Proposed New Special Conditions to be inserted

Special Condition 4E: Requirement to Conduct a Review and Continue to Develop Enduring Models for Forecasting the Costs of Procuring and Using Balancing Services.

The purpose of this condition is to require NGET to look beyond the current scheme in order to ensure that the models are capable of producing accurate forecasts of the costs of balancing the system after 2015 in light of the changing developments in the electricity market. To that end, the SO must have regard to the following objectives:

- the development of forecasts of the target costs of balancing the system with a forward projection of eight years;
- ensuring that the models remain suitable for forecasting the costs of balancing the system in the face of upcoming market developments;
- ensuring the models attain optimum performance in relation to NGET's balancing services activities; and
- enabling interested parties to develop greater understanding of the projected level of future balancing services costs.

This may require further model development such as to the internal structures and relationships which are used. The condition requires the SO to engage, and where appropriate, consult with stakeholders in model development process.

The effect of this condition is to ensure that NGET continues to develop the models for use (potentially including as part of an incentive scheme) to forecast the costs incurred in carrying out its balancing services activities from April 2015. Increased engagement with wider industry participants should also provide an opportunity for NGET to stress test its plans for developments to the models.

Special Condition 4F: Requirement to Develop Enduring Methodologies for the Purposes of Procuring and Using Balancing Services

The purpose of this condition is to require NGET to develop enduring methodologies that can be used to set a target for the costs it would expect to incur in conducting its balancing services activities. These should complement the enduring models which are developed and, to that end have the following objectives:

- the development of forecasts of the target costs of balancing the system with a forward projection of eight years;
- ensuring that the models remain suitable for forecasting the costs of balancing the system in the face of upcoming market developments;
- enabling interested parties to develop greater understanding of the projected level of future balancing services costs.

The effect of this condition is to ensure that NGET develops methodologies which can be applied to identify a target for the costs it is expected to incur as part of an enduring incentive scheme. Increased engagement with wider industry participants should also provide an opportunity for NGET to stress test its plans for developments to the methodologies.

Special Condition 4G: Black Start Cost Incentive

This scheme remains largely unchanged in substance from the previous Black Start provision for the 2011-13 BSIS whereby a target is set for NGET with regards to the costs of procuring the black start services that are required over the course of the scheme. In developing the cost target the Authority has continued to take a “building blocks” approach by considering each of the key variables in turn. Where NGET is considered to have sufficient control and ability to forecast costs, these variables are identified as ex ante and therefore fixed at the start of the scheme. Three variables (warming costs, new provider availability fees and capital contributions to new providers) can be updated at the mid-scheme update given a level of uncertainty over costs as a result of possible market developments in the next year. By contrast other variables, such as feasibility studies will be treated on an ex post basis. NGET will be required to demonstrate that the costs incurred on any ex post or mid-scheme updates are in the best interests of consumers and will provide long term value beyond the existing BSIS period.

The use of ex ante, mid-scheme and ex post variables in this area will strike the most appropriate balance between incentivising NGET to act in the most economic manner to minimise costs that it incurs for the broad range of actions it may take in procuring black start services over a two year time horizon and mitigating against uncertainty surrounding a number of possible market developments and the impact that these could have on NGET’s costs in this area.

Special Condition 4H: Wind Generation Forecasting Incentive

This financial incentive is designed to improve the SO's level of accuracy in forecasting the levels of metered wind generation on the system at the day ahead stage. Accurate forecasting of wind generation will become increasingly important as this type of renewable generation increases.

At present, the SO is required to publish, on its website, a day ahead forecast no later than 5pm on the day before the day to which the forecast relates. Further to this financial incentive, we propose that the SO publishes an additional forecast of Wind Generation output no later than 5am on the day before the day to which the forecast relates. The target is based on the historical performance of NGET's forecasts over the last 18 months and a discount factor has been applied in order to ensure that NGET is incentivised to improve its forecasting performance rather than maintain the current level of accuracy.

Accurate forecasting of wind generation should assist stakeholders to balance their positions more accurately and enable NGET to minimise costs of operating margins in the BM.

Special Condition 4I: Requirement to Report on System Transmission Losses [and Reactive Power]

The financial incentive on the SO with respect to the level of transmission losses has been removed and replaced with a reputational one on the basis that the SO has very limited control in respect of transmission losses and difficulty in forecasting the level of such losses. This also removes the risk of windfall gains or losses as a result of market developments beyond the control of the SO. The new reputational incentive will require NGET to report and publish information on the actions it takes in which it considers the impact of transmission losses and on system transmission losses more generally.

The effect of this reputational incentive is to continue to ensure that there is transparency surrounding the level of transmission losses on the system and on the areas where NGET is able to have an impact on the level of transmission losses through the actions that it takes and in the absence of a financial incentive. This will ensure that NGET can provide information to system users regarding historic and projected levels of transmission losses on the system.

Special Condition 4J: The System Operator Innovation Roll-Out Mechanism

This is a new condition which provides NGET with a route through which it may apply for funding for the roll-out stages of innovation projects where it is considered that the financial benefits of the roll-out may go beyond the current two year scheme. The onus lies with the licensee to justify why the innovation will bring benefits to consumers beyond the current scheme. This incentive scheme is designed to encourage the roll-out of more proven innovations at a later stage of development. Given the relatively short duration of the scheme, the funding will only be available in the second year of the scheme.

The effect of the System Operator Innovation Roll-Out Mechanism is to encourage the SO to work towards a number of longer term of objectives which will benefit consumers.

Part 3: Special Condition to be deleted

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

The requirements of Special Condition AA5I fall away at the end of the 2011-13 BSIS scheme and a two new special licence conditions will be introduced requiring the licensee to develop enduring models and methodologies for implementation post the 2013-15 scheme.

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

This special condition required the licensee to develop a methodology in respect of procuring and using Black Start services over an eight year period to align with the RIIO scheme. However, as the new BSIS scheme will only be of two years duration, the scope of the requirement was no longer considered appropriate at this time.

Schedule 3

Comment Number	Para Ref.	Comment	Ofgem Response	Changes made to Licence (Y/N)	Reasons for differences between the modifications and those set out in the Notice
1	Multiple	<p>Spaces have been deleted from the proposed text in the following instances:</p> <ul style="list-style-type: none"> ○ in the definition of “<i>Network Equipment</i>” between ‘<i>Mechanism</i>’ and ‘)’; ○ in the definition of “<i>SO Capex Rolling Incentive</i>” between ‘2013’ and ‘.’; ○ in the definition of “<i>SO Innovation</i>” between ‘<i>all</i>’ and ‘<i>of</i>’; ○ in paragraph 4B.1 between ‘<i>Mechanism</i>’ and ‘<i>inclusive</i>’; ○ in paragraph 4B.3 between ‘4J’ and ‘.’; ○ in paragraph 4C.5 in the definition of BSFS_t between ‘<i>Studies</i>’ and ‘<i>for</i>’; ○ in the title of Special Condition 4E between ‘<i>Develop</i>’ and ‘<i>Enduring</i>’; ○ in paragraph 4I. 4 (a) between ‘<i>Losses</i>’ and ‘<i>on</i>’; ○ in paragraph 4J. 4 (a) between ‘<i>of</i>’ and ‘<i>ROV_t</i>’; ○ in paragraph 4J.4 (c) between ‘<i>of</i>’ and ‘<i>a</i>’; and <p>in paragraph 4J.5 between ‘<i>revised</i>’ and ‘<i>value</i>’.</p>	Agreed	Y	Correction of typographical errors
Special Condition 1A Definitions and Interpretation					
2	1A.5	<p>The words ‘<i>on External Costs</i>’ have been added to the heading of Special Condition 4C within the definitions of “<i>Balancing Services Activity Revenue Restriction</i>”, “<i>Outage Change</i>”, “<i>Relevant Year t</i>”, “<i>SO Methodologies</i>” and “<i>SO Models</i>” to reflect the full name of the Special Condition.</p>	Agreed	Y	Clarification and consistency

Comment Number	Para Ref.	Comment	Ofgem Response	Changes made to Licence (Y/N)	Reasons for differences between the modifications and those set out in the Notice
3	1A.5	The title of Special Condition 4B within the definition of ' <i>Balancing Services Activity Revenue Restriction</i> ' has been amended to ' <i>Balancing Services Activity Conditions: Interpretation</i> ' rather than ' <i>Balancing Services Activity Special Conditions: Interpretations</i> '.	Agreed	Y	Clarification and consistency
4	1A.5	The definitions of " <i>Network Equipment</i> " and " <i>New Network Equipment</i> " have been amended to also include reference to ' <i>Special Condition 4J (The System Operator Innovation Roll-out Mechanism)</i> '.	Agreed	Y	Clarification and consistency
5	1A.5	In the definition of " <i>SO Innovation</i> ", part (b), the full definition of " <i>New Network Equipment</i> " has been inserted to replace the word ' <i>new</i> '.	Agreed	Y	Correction of typographical error
6	1A.5	The 't' has been subscripted to ' _t ' in the definitions of " <i>SO Methodologies</i> " and " <i>SO Models</i> " follow " <i>Modelled Target Costs</i> ".	Agree	Y	Correction of typographical error
7	1A.5	In the definition of " <i>Outage Change</i> " reference to ' <i>Part H (TO Incentives)</i> ' has been deleted as this is the incorrect reference.			
Special Condition 4A: Restriction of System Operator Internal Resource					
8	4A.1 & 4A.2	The words ' <i>balancing services activity</i> ' have been capitalised to read ' <i>Balancing Services Activity</i> ' in line with its definition.	Agreed	Y	Consistency
Special Condition 4C: Balancing Services Activity Revenue Restriction on External Costs					
9	4C.5	The phrase ' <i>in respect of the Relevant Year t or Period p (bearing the meaning of the term RT_p in this licence as at 31 March 2013</i> ' has been deleted such that the definition of RT_t only refers to paragraph 4C.16.	Agreed	Y	Clarification
10	Part E	The words ' <i>balancing services</i>	Agreed	Y	Consistency

Comment Number	Para Ref.	Comment	Ofgem Response	Changes made to Licence (Y/N)	Reasons for differences between the modifications and those set out in the Notice
	heading	<i>activity</i> ' have been capitalised to read ' <i>Balancing Services Activity</i> ' within the heading of Part E.			
11	4C.16	Deletion of the phrase ' <i>(RT_t or RT_p (bearing the meaning of that term in this licence as at 31 March 2013) respectively)</i> ' following the proposed amendment to paragraph 4C.5 above.	Agreed	Y	Consistency with paragraph 4C.5
12	4C.35	Deletion of the space between " <i>ex ante</i> " with the replacement of a hyphen to read " <i>ex-ante</i> " in parts (b) and (c).	Agreed	Y	Correction of typographical error
Special Condition 4E: Requirement to Conduct a Review and Continue to Develop Enduring Models for Forecasting the Costs of Procuring and Balancing Services					
13	4E.1	Reference to paragraph 4C.3 has been corrected to 4E.3 to reference the correct paragraph within the condition.	Agreed	Y	Consistency
14	4E.1	The paragraph has been amended to end with ') .' as this will end the sentence and paragraph appropriately.	Agreed	Y	Correction of typographical error
15	4E.3	The wording for part (c) of this paragraph to include the word ' <i>and</i> ' after the word Activity as this signals the next part is the last in the list.	Agreed	Y	Clarification
Special Condition 4F: Requirement to Develop Enduring Methodologies for the purpose of identifying a Target for the Costs of Procuring and Using Balancing Services					
16	4F.2	The wording for part (b) of this paragraph to include the word ' <i>and</i> ' after the word Activity as this signals the next part is the last in the list.	Agreed	Y	Clarification
Special Condition 4G: Black Start Cost Incentive					
17	4.G2	Reference to paragraph 4C.39 has been corrected to refer to the correct paragraph 4C.40 within Special Condition 4C.	Agreed	Y	Correction of typographical error
Special Condition 4H: Wind Generation Forecasting Incentive					
18	4H.2	In the definition of $RFIT_n$ the	Agreed	Y	Clarification

Comment Number	Para Ref.	Comment	Ofgem Response	Changes made to Licence (Y/N)	Reasons for differences between the modifications and those set out in the Notice
		phrase ' <i>subject to paragraph 4H.4 below</i> ' has been deleted as the definition is not subject to this paragraph.			

Schedule 4

Special Condition 1A. Definitions and Interpretation

Introduction

- 1A.1 This condition sets out most of the defined words and expressions (most of which begin with capital letters) that are used in the Special Conditions, and gives their definitions.
- 1A.2 However:
- (a) some words and expressions which are only used in a particular Special Condition are defined in that condition; and
 - (b) some words and expressions used in the Special Conditions are defined in Standard Condition 1 of the Standard Conditions (although capital letters are not used in those conditions to denote defined terms).
- 1A.3 Where a word or expression is defined both in this condition and in Standard Condition 1 of the Standard Conditions, the definition in this condition shall prevail.
- 1A.4 Any reference in these Special Conditions to:
- (a) a provision thereof;
 - (b) a provision of the standard conditions of electricity transmission licences;
 - (c) a provision of the standard conditions of electricity supply licences;
 - (d) a provision of the standard conditions of electricity distribution licences;
 - (e) a provision of the standard conditions of electricity generation licences;
 - (f) a provision of the standard conditions of electricity interconnector licences
- shall, if these or the standard conditions in question come to be modified, be construed, so far as the context permits as a reference to the corresponding provision of these or the standard conditions in question as modified.

Definitions in alphabetical order

- 1A.5 In the Special Conditions, unless the context otherwise requires:

the Act	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Active Power	shall have the same meaning as is given to that term in the Grid Code.
Affiliate	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Allowable NIA Expenditure	has the meaning given to that term in Part B of Special Condition 3H (The Network Innovation

Allowance).

Allowed Expenditure	means the amount of costs, approved by the Authority, that is used to form a Price Control Financial Model Variable Value (PCFM Variable Value).
Allowed Pass-through Items	means the items referred to in Special Condition 3B (Calculation of Allowed Pass-through Items).
Allowed Security Costs	shall have the same meaning it has in the Fuel Security Code.
Annual Iteration Process	means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition 5B (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.
Authority	means the Gas and Electricity Markets Authority.
Authority's website	means www.ofgem.gov.uk .
Average Specified Rate	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.
Balancing Mechanism	has the meaning given in Standard Condition C1 (Interpretation of Section C).
balancing services	has the meaning given to this term in Standard Condition C1 (Interpretation of Section C).
Balancing Services Activity	has the meaning given to this term in Standard Condition C1 (Interpretation of Section C).
Balancing Services Activity Revenue	means the total revenue derived by the licensee from the carrying on of the Balancing Services Activity.
Balancing Services Activity Revenue Restriction	means Special Conditions 4A (Restriction of System Operator Internal Revenue) and 4C (Balancing Services Activity Revenue Restriction on External Costs), together with such parts of Special Conditions 4B (Balancing Services Activity Conditions: Interpretations) and Special Conditions 4D (Restriction on Contracting with BSC Parties) to 4J (The System Operator Innovation Roll-out Mechanism) inclusive as are ancillary thereto.

Base Transmission Revenue	means the revenue calculated in accordance with the formula set out in Part C of Special Condition 3A (Restriction on Transmission Network Revenue).
Baseline Wider Works Output(s)	means a specific programme of Wider Works the licensee plans to Deliver where such works are approved by the Authority and set out as a Baseline Wider Works Output in Table 1 in Part A of Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure).
<u>Black Start</u>	<u>shall have the same meaning as is given to that term in the Grid Code.</u>
<u>BM Unit</u>	<u>shall have the meaning given in the BSC.</u>
Boundary Transfer Capability	for the purposes of Special Condition 6J (Allowed Expenditure for Incremental Wider Works) means the maximum amount of power flow across specific transmission circuits following the most onerous secured event of a fault outage without exceeding the thermal rating of any asset forming part of the National Electricity Transmission System, without any unacceptable voltage conditions or insufficient voltage performance and without any transient or dynamic instability of the electrical plant, equipment and systems directly or indirectly connected to the national electricity system.
<u>BSC</u>	<u>shall have the meaning given in Standard Condition C1 (Interpretation of Section C).</u>
<u>BSC Party</u>	<u>has the meaning given in Standard Condition C1 (Interpretation of Section C).</u>
Capex Rolling Incentive	means the mechanism giving rise to the capital expenditure incentive revenue adjustment term, CxIncRA _t in Special Condition D9 (Capital Expenditure Incentive and Safety Net) of this licence in the form it was in on 31 March 2013, having regard to the process set out in Appendix 2 of the Rollover Final Proposals dated 28 November 2011 (162/11).
<u>Capital Contributions</u>	<u>means any capital payment made by the licensee to a New Provider in order to facilitate the provision of Black Start services by the New Provider.</u>

Carbon Benefits	for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) and Special Condition 6E (The Innovation Roll-out Mechanism) 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.
Competent Authority	means the Secretary of State, the Authority, the Compliance Officer, the Stock Exchange, the Panel on Take-overs and Mergers, or any local or national agency, regulatory body, authority, department, inspectorate, minister (including Scottish Ministers), ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, the United Kingdom, the United States of America or the European Community.
Confidential Information	means any information which the licensee receives from another Transmission Licensee relating to the design or construction of a possible connection or relating to financial matters associated with a possible connection or any information which is derived from such information (but in each case excluding any such information which the licensee has properly received or will properly receive through another means) shall, for the purposes of this condition and Special Condition 2H (Appointment of a compliance officer) and until such time as the licensee accepts the TO offer relating to that possible connection or the applicant accepts an alternative offer made by the licensee and there are no outstanding alternative offers in respect of that TO offer, be confidential information.
Cost and Output Adjusting Event (COAE)	has the meaning given to it by Part B of Special Condition 6I (Specification of Baseline Wider Works and Strategic Wider Works Outputs and the Assessment of Allowed Expenditure).
CUSC	has the meaning given in Standard Condition C1 (Interpretation of Section C).
CUSC Party	has the meaning given in Standard Condition C1 (Interpretation of Section C).
Customer	for the purposes of Special Condition 3D (Stakeholder Satisfaction Output) means any Stakeholder who pays the licensee through

network charges or fees.

Customer Satisfaction Survey means an annual survey of Customers made under provisions of Special Condition 3D (Stakeholder Satisfaction Output).

Day Ahead Forecast means the forecast of Wind Generation Output published by the licensee no later than 17:00 hours on the day before the day to which the forecast relates.

Delivery/Delivered for purposes of Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure), Special Condition 6J (Allowed Expenditure for Incremental Wider Works) and Special Condition 6L (Baseline Demand Related Infrastructure) means works that have undergone second stage electrical commissioning on the licensee's Transmission System.

Demand Related Infrastructure Works/Demand Works means the new electricity transmission infrastructure works that are needed to provide customer demand connections and to increase the offtake capacity at grid exit points that are specified in a Relevant User Connection Agreement or a Relevant DNO Modification Request.

Designated Areas for the purposes of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas) means 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, and also areas that have a statutory designation as a National Scenic Area under the Town and Country Planning (Scotland) Act 1997.

Development Consent Order (DCO) means the consent granted by the Secretary of State under the Planning Act 2008 for a developer to proceed with the construction of transmission infrastructure, classified in England and Wales as a Nationally Significant Infrastructure Project.

Directly Attributable Costs has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).

Disallowed Expenditure has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).

Disapplication Date	means the date on which the Licensee proposes that the Relevant SO Special Conditions or the Relevant TO Special Conditions should be disappplied in whole or in part as specified in a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions).
Disapplication Request	means a request to disapply the Relevant SO Special Conditions or the Relevant TO Special Conditions (in whole or in part) for the purposes of and in accordance with Special Condition 8A (Disapplication of Relevant Special Conditions).
DNO	means a Distribution Network Operator.
DNO Mitigation	means the construction of new DNO substation bays, new overhead line works, new underground cable and removal of existing towers associated with a DNO.
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 Special Condition 3H (The Network Innovation Allowance).
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 Special Condition 3H (The Network Innovation Allowance).
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 Special Condition 3I (The Network Innovation Competition) that satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition under the provisions of Special Condition 3H (The Network Innovation Allowance).

Eligible NIC Project	for the purposes of Special Condition 3I (The Network Innovation Competition) means a project undertaken by the Licensee or any other electricity 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.
Embedded Transmission System	means a transmission system consisting of plant and equipment that includes relevant offshore lines which forms part of the National Electricity Transmission System by utilising a connection to an electricity distribution system.
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.
Enhanced Security Costs	for the purposes of Special Condition 7D (Arrangements for the recovery of SO uncertain 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 security of any of the IT systems required to operate the licensee's Transmission System.
Enhancing Pre-existing Infrastructure (EPI)	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, National Scenic Areas and Areas of Outstanding Natural Beauty ("Designated Areas") which meet the criteria set out in the licensee's Mitigating Pre-existing Infrastructure Policy prepared in accordance with Part A of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas).
Environmental Discretionary Reward (EDR) Scheme Guidance	a document published, and from time to time revised by the Authority in accordance with Part D of Special Condition 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme) for the purposes of setting out the submission requirements, assessment process and procedures, administration, and governance of the Environmental Discretionary Reward Scheme.

EPI Allowed Expenditure (EPIE)	has the meaning given to it by paragraph 6G.2 of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas).
EPI Outputs	means those EPI outputs that are set out in Table 1 of Part B of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas).
ET1 Price Control Financial Handbook	<p>means the document of that name that was published by the Authority on 1 February 2013 and came into effect on 1 April 2013 that:</p> <ul style="list-style-type: none"> (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, <p>as modified from time to time in accordance with the provisions of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).</p>
ET1 Price Control Financial Instruments	comprise the ET1 Price Control Financial Handbook, which contains the ET1 Price Control Financial Methodologies, and the ET1 Price Control Financial Model.
ET1 Price Control Financial Methodologies	<p>means the methodologies that:</p> <ul style="list-style-type: none"> (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, <p>as modified from time to time in accordance with the provisions of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).</p>
ET1 Price Control Financial Model	means the model of that name (with a suffix referring to the month of November in Relevant Year t-1 as that term is defined for the purpose

of Special Condition 5A (Governance of ET1 Price Control Financial Instruments)) that was first published by the Authority on 1 February 2013 and came into effect on 1 April 2013:

(a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with the suffix referred to above) on the Authority's Website; and

(b) that the Authority will use to determine the value of the terms MOD_t and $SOMOD_t$ through the application of the Annual Iteration Process, as modified from time to time in accordance with the provisions of Special Condition 5A.

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.

Exceptional Event

for the purposes of Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied) means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes electricity not to be supplied to a customer and includes (without limitation) an act of the public enemy, war declared or undeclared, threat of war, terrorist act, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire (not related to weather), any severe weather event resulting in more than 50 faults being recorded by the licensee on the licensee's Transmission System in any 24 hour period, governmental restraint, Act of Parliament, any other legislation, bye law, directive 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 will not be interpreted as a cause beyond the reasonable control of the licensee.

Excluded Services

means the services that fall within the definition in Part C of Special Condition 8B (Services treated as Excluded Services).

[Feasibility Studies](#)

[means work undertaken by the licensee and any potential New Provider in order to assess the ability of the potential New Provider to provide Black Start services.](#)

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

	<p>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 Appendix 2 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).</p>
Funded Pre-construction Works	<p>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 Appendix 2 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).</p>
Funding Return	<p>has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).</p>
Funding Return Mechanism	<p>has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).</p>
Further Works	<p>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 4 of Appendix 1 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) and taken into account in calculating the TII Allowance Adjustment in accordance with paragraph 6B.11 of that condition.</p>
Generation Connections	<p>for the purposes of Special Condition 6F (Baseline generation connection outputs and generation connections volume driver) means the transmission infrastructure works required to connect new Relevant Generation Capacity.</p>
Halted Project Revenues	<p>has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).</p>

High Quality Outcomes	for the purposes of determinations made by the Authority pursuant to the provisions of Part B of Special Condition 3D (Stakeholder Satisfaction Output), “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 Relevant Year.
Incentivised Loss of Supply Event	<p>for the purposes of Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied) means any event on the licensee’s Transmission System that causes electricity not to be supplied to a customer, subject to the following exclusions:</p> <ul style="list-style-type: none"> (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; and (vii) any event lasting less than or equal to three minutes.
Incremental Wider Works (IWW)	means transmission infrastructure works delivered by the licensee that result in an increase in Boundary Transfer Capability that the licensee determined as required in accordance with the licensee’s Policy under Part B of Special Condition 6J (Allowed Expenditure for Incremental Wider Works).

Innovation	for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) 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; or (d) a novel commercial arrangement, that is not, or is not within the scope of, an Ordinary Business Arrangement.
Innovation Roll-out Costs	for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means the proposed cost of Rolling out a Proven Innovation.
Interruption Payment	for the purposes of Special Condition 3B (Calculation of allowed pass-through items) has the same meaning as set out in section 11 of the Connection and Use of System Code provided for in paragraph 2 of Standard Condition C10.
Maximum Revenue	means the revenue calculated in accordance with the formula set out in Part B of Special Condition 3A (Restriction of Transmission Network Revenue).
Maximum SO Internal Revenue (SOI)	means the revenue calculated in accordance with the formula set out in Part B of Special Condition 4A (Restriction of System Operator Internal Revenue).
Methodology for Network Output Measures (the NOMs methodology)	means the methodology that was in place under this licence under the name of “network output measures methodology” pursuant to Condition B17 (Network Output Measures) in the form in which this licence was in force at 31 March 2013 or as subsequently amended as provided for in Special Condition 2L (Methodology for Network Output Measures).
National Electricity Transmission System	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Network Access Policy	has the meaning given to that term in paragraph 2J.1 of Special Condition 2J (Network Access Policy) and includes or makes provision for details consistent with Part B of that condition.
Network Assets	for the purposes of Special Condition 2L (Methodology for Network Output Measures) means the assets that collectively form the licensee’s Transmission System, and includes the principal components of those assets.

Network Equipment	for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism-) and Special Condition 4J (The System Operator Innovation Roll-out Mechanism) 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.
Network Innovation Allowance (NIA)	has the meaning given to that term in paragraph 3H.1 of Special Condition 3H (The Network Innovation Allowance).
Network Innovation Competition (NIC)	has the meaning given to that term in Special Condition 3I (The Network Innovation Competition).
Network Output Measures	means the measures defined in paragraph 2L.4 of Special Condition 2L (Methodology for Network Output Measures).
Network Replacement Outputs	for the purposes of Special Condition 2M (Specification of Network Replacement Outputs) means the Replacement Priority profile that the licensee is required to deliver on its Transmission System by 31 March 2021 that has been approved as part of the Price Control Review and funded in its Opening Base Revenue Allowance, as measured by the Network Output Measures.
New Network Equipment	for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) and Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means any new asset that does not yet form part of the licensee's Transmission System or control centre for use in conjunction therewith.
New Provider	means an authorised electricity or other provider in respect of a generation set or other asset in respect of which the licensee has not entered into any agreement to provide Black Start services prior to the date on which this condition takes effect in this licence.
NIA Governance Document	means the document issued by the Authority under Part D of Special Condition 3H (The Network Innovation Allowance), subject to the requirements of Part E of Special Condition 3H (The Network Innovation Allowance), 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 Base Transmission Revenue which the licensee may use for Eligible

	NIA Projects as set out in Appendix 1 of Special Condition 3H (The Network Innovation Allowance).
NIC Funding	has the meaning given to that term in Part B of Special Condition 3I (The Network Innovation Competition).
NIC Funding Mechanism	has the meaning given to that term in Part B of Special Condition 3I (The Network Innovation Competition).
NIC Governance Document	means the document issued by the Authority under Part E of Special Condition 3I (The Network Innovation Competition), subject to the requirements of Part F, relating generally to the NIC and including matters relating to the operation of the NIC Funding Mechanism.
NOMs Methodology Objectives	means the objectives set out in Part B of Special Condition 2L (Methodology for Network Output Measures).
Non-chargeable Outage Change	means any change to the outage plan notified to the licensee by the System Operator which the licensee and the System Operator agree is not an outage change under Special Conditions 2N (Provision of Information to the System Operator), 8B (Services Treated as Excluded Services) and 8C (Basis of transmission owner charges).
Non-Domestic Rates	means: <ul style="list-style-type: none"> (a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and (b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government etc (Scotland) Act 1994, or any legislation amending or replacing those enactments.
Offshore Transmission Owner	means the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section E (offshore transmission owner standard conditions) Direction and where Section E remains in effect (whether or not subject to any terms included in Section E (offshore transmission owner standard conditions) Direction or to any subsequent variation of its

terms to which the licensee may be subject).

Opening Base Revenue Allowance(s)

means the value of base revenue determined by the Authority and as set out in Appendix 1 of Special Condition 3A (Restriction of Transmission Network Revenue).

Operational Forum Meeting

means the industry forum at which the licensee provides an update on the operation of the National Electricity Transmission System to relevant parties.

Operational Metering

means metering systems used for the measurement of Active Power to the relevant distribution system or transmission system.

Ordinary Business Arrangement

for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means any or all of the following: (a) a specific piece of existing Network Equipment; (b) an arrangement or application of existing Network Equipment; (c) an operational practice; (d) a commercial arrangement, 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.

Ordinary SO Business Arrangement

for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means any or all of the following: (a) a specific piece of existing Network Equipment; (b) an arrangement or application of existing Network Equipment; (c) an operational practice; (d) a commercial arrangement, that is being used or is capable of being used, without modification, by the licensee at the start of Relevant Year t.

Outage Change

shall have the meaning given in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs); ~~Part H (TO incentives)~~, paragraph 4C.20.

Output Amendment (OA)

has the meaning given to it by Part D of Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure).

Output Measures Adjusting Event

has the meaning given to it in Part C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).

Output Substitution (OS)	has the meaning given to it by Part B of Special Condition 3L (Pre-construction Engineering outputs for prospective Strategic Wider Works).
PCFM Variable Value	<p>means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:</p> <p>(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and</p> <p>(b) whose revision does not constitute a modification to the ET1 Price Control Financial Model for the purposes of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).</p>
PCFM Variable Values Table	<p>means the table on the Input sheet of the ET1 Price Control Financial Model for the licensee which has:</p> <p>(a) column headings for:</p> <ul style="list-style-type: none"> (i) PCFM Variable Value names; (ii) Special Condition numbers; (iii) unit designations; and (iv) Relevant Years; <p>(b) a row relating to each PCFM Variable Value specified in this licence; and</p> <p>(c) a range of blue coloured cells containing the PCFM Variable Values specified in this licence.</p>
PE Output Substitution	means an OS applied, or to be applied, to a PE Output specified in Part A of Special Condition 3L (Pre-construction Engineering Outputs for prospective Strategic Wider Works).
Pension Protection Fund	has the meaning given in the Glossary of the ET1 Price Control Financial Handbook.
Pension Scheme Administration	has the meaning given in the Glossary of the ET1 Price Control Financial Handbook.
Pension Scheme Established Deficit	has the meaning given in the Glossary of the ET1 Price Control Financial Handbook.
<u>Period p</u>	<u>means the period 1 April 2011 to 31 March 2013.</u>
<u>Power Station</u>	<u>shall have the same meaning as is given to that term in the Grid Code.</u>

Pre-construction Engineering (PE)	for the purposes of Special Condition 3L (Pre-construction Engineering outputs for Strategic Wider Works Outputs) 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 (PE) Outputs	means the deliverables required in connection with the pre-construction engineering activities necessary to prepare a feasible, economical and efficient technical design for a prospective Strategic Wider Works. 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/or (e) planning and/or development consents.
Pre-existing Transmission Infrastructure	for the purposes of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas) means transmission infrastructure assets forming part of the licensee's Transmission System on 1 April 2013.
Price Control Period	means the period of eight years beginning on 1 April 2013 and ending on 31 March 2021 during which subject to Special Condition 8A (Disapplication), the Special Conditions will have effect in this licence.
Project Details	means one or more of the following particulars specified in Appendix 2 to Special Condition 6B (Supplementary provisions in relation to Transmission Asset Owner Incentives Scheme activity in the legacy period) in respect of a given Scheduled Project and referred to in Parts B, C and D of Special Condition 6B: (a) Pre-construction cost allowances; (b) Construction cost allowances; (c) Key project milestones; and (d) Forecast output measures.
Project Direction	for the purposes of Special Condition 3I (The Network Innovation Competition) 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.

Proven Innovation	for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism-) means an Innovation which the Transmission Owner can demonstrate has been successfully trialled or demonstrated either on the network to which this licence relates or elsewhere.
<u>Proven SO Innovation</u>	<u>for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means an SO Innovation which the licensee can demonstrate has been successfully trialled or demonstrated in respect of the Balancing Services Activity or elsewhere.</u>
<u>Registered Capacity</u>	<u>shall have the same meaning as is given to that term in the Grid Code.</u>
Regulatory Asset Value (RAV)	has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.
“RIGs”	means Regulatory Instructions and Guidance pursuant to Standard Condition B15 (Regulatory Instructions and Guidance).
Related Undertaking	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Relevant Additional Pre-construction Works	means for the purposes of Parts B and C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) 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 a Scheduled Project (including but not limited to planning consent).
Relevant Amendment to the Scope of Construction Works	means, for the purposes of Parts B and C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period), 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 a Scheduled Project (including but not limited to planning consent).

Relevant Generation Capacity	<p>for the purposes of Special Condition 6F (Baseline Generation Connections Outputs and Generation Connections volume driver) is calculated as the sum of all generation capacity in Relevant Year t-2 minus the sum of all generation capacity in Relevant Year t-3.</p> <p>For directly connected generation, the generation entry capacity shall be the largest holding or (if greater than the holding) use of entry capacity rights (through any combination of access products) held or used by an individual power station for a total period not less than 5 days during the Relevant Year.</p> <p>For interconnectors, the generation entry capacity will be the largest use of entry capacity rights (through any combination of access products) used by an individual interconnector for a total period not less than 5 days during the Relevant Year.</p> <p>For embedded generation (in Zones 2 and 22 only as defined in Appendix 1 of Special Condition 6F), the generation entry capacity shall be the sum of the maximum capacities of all half-hourly metered embedded power stations.</p>
Relevant SO Special Conditions	<p>means Special Condition 4A (Restriction of System Operator Internal Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 4A to which a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions) relates.</p>
Relevant TO Special Conditions	<p>means Special Condition 3A (Restriction of Transmission Network Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 3A to a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions) relates.</p>
Relevant User Agreement to Vary	<p>means a bilateral contract between the licensee and user for a modification to an existing grid connection as defined in the CUSC.</p>
Relevant User Connection Agreement	<p>for the purposes of Special Condition 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) means a means a bilateral agreement between the licensee</p>

	and user for a new grid supply point as defined in the CUSC.
Relevant Year	a year beginning on 1 April to which the provisions of this licence apply.
Relevant Year d	for the purposes of Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver) means the year in which the circuit is forecast to achieve, or actually achieves stage 2 commissioning.
Relevant Year t	for the purposes of the Special Conditions in Chapters 5, 6, and 7, 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 Special Condition 3A (Restriction of Transmission Network Revenue) and Special Condition 4A (Restriction on System Operator Internal Revenue) respectively and references to Relevant Year t-1 and Relevant Year t-2 are to be construed accordingly. For the purposes of Special Conditions 4C (Balancing Services Activity Revenue Restriction on External Costs) to 4J (The System Operator Innovation Roll-out Mechanism) inclusive Relevant Year t means that Relevant Year for the purposes of which any calculation falls to be made and references to Relevant Year t-1 and t-2 are to be construed accordingly.
Replacement Priority	means the category assigned to an asset to prioritise the requirement for intervention (replacement, refurbishment or reconditioning) based on a measure of its asset health and criticality in terms of consequences of failure.
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 the licensee, 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 licensee, determine to be appropriate in the circumstances.
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 November each year; or b) if that growth rate in respect of any year has not been published, such growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that growth rate, such other growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances.

Returned Royalty Income	has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).
RIO Principles	means the principles for the assessment of business plans set out in the document entitled “Decision on strategy for the next transmission price control” (Ref 47/11) published on 31 March 2011.
Roll-out	for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means the incorporation of a Proven Innovation into an Ordinary Business Arrangement.
Scheduled Project	means a Transmission Investment Incentives Project for which Project Details are specified in Appendix 2 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) in respect of Funded Pre-construction Works and/or Funded Construction Works.
Security Period	for the purposes of Special Condition 3K (Allowances in respect of a Security Period) means a period commencing on the date on which any direction issued by the Secretary of State under section 34(4) of the Act enters into effect and terminating on the date (being not earlier than the date such direction, as varied, is revoked or expires) as the Authority, after consultation with such persons (including, without limitation, licence holders liable to be principally affected) as it shall consider appropriate, may with the consent of the Secretary of State by notice to all licence holders determine after having regard to the views of such persons.
Site-Specific Charges	means charges defined in Schedule Ten of the STC.

SO Capex Rolling Incentive	means the mechanism giving rise to the adjustment term IncPayEXt in Special Condition AA5A of this licence in the form it was in on 31 March 2013.
<u>SO Innovation</u>	<p><u>for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means any or all- of the following:</u></p> <p><u>(a) a specific piece of New Network Equipment;</u></p> <p><u>(b) a novel arrangement or application of newNew Network Equipment or existing Network Equipment;</u></p> <p><u>(c) a novel operational practice; or</u></p> <p><u>(d) a novel commercial arrangement, that is not, or is not within the scope of, an Ordinary SO Business Arrangement.</u></p>
<u>SO Innovation Roll-out Costs</u>	<u>for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means the proposed cost of SO Roll-out of a Proven SO Innovation.</u>
<u>SO Methodologies</u>	<u>means the documented explanation of the methods, principles and assumptions that the licensee will apply for the purposes of using the SO Models to determine the value of the term “Modelled Target Costs,” in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).</u>
<u>SO Models</u>	<u>means the tools used by the licensee to forecast costs incurred by the licensee in carrying out the Balancing Services Activity and to determine the value of the term “Modelled Target Costs,” in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).</u>
SO Opening Base Revenue Allowance	means the value of base revenue determined by the Authority and as set out in Appendix 1 of Special Condition 4A (Restriction of System Operator Internal Revenue).
SO Regulatory Asset Value	means the financial balance representing expenditure by the licensee in respect of the System Operator part of its transmission business which has been capitalised under regulatory rules. The licensee receives a return and depreciation on its combined TO and SO RAV balances in its price control allowed revenues.
<u>SO Roll-out</u>	<u>for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism)</u>

[means the incorporation of a Proven SO Innovation into an Ordinary SO Business Arrangement.](#)

SO Totex	has 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 value provided in the table in Appendix 1 of Special Condition 7B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator).
Specified Information	has the meaning given in Standard Condition B15 (Regulatory Instructions and Guidance).
Stakeholder	for the purposes of Special Condition 3D (Stakeholder Satisfaction Outputs) refers to the general body of persons (including but not limited to Customers or other actual users of the licensee’s network) who are affected by or have an interest in the licensee’s operations.
Stakeholder Engagement Reward	means the reward provided for in Part B of Special Condition 3D (Stakeholder Satisfaction Output).
Stakeholder Engagement Reward Guidance	means the associated document provided for under Special Condition 3D (Stakeholder Satisfaction Output).
Stakeholder Satisfaction Output	means the term defined in Part A of Special Condition 3D (Stakeholder Satisfaction Output).
Stakeholder Satisfaction Survey	means an annual survey of stakeholders carried out consistently with the provisions of Special Condition 3D (Stakeholder Satisfaction Output).
Strategic Wider Works Output(s)	means a specific programme of Wider Works the licensee plans to deliver where such works are approved by the Authority and specified as a Strategic Wider Works Output in Table 3 in Part A of Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure).
System Operator (SO)	has the meaning given to the term in Standard Condition A1 (Definitions and interpretation).
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, and shall take the value specified in Table 1 of Appendix 1 to Special Condition 6B (Supplementary provisions in relation to transmission asset owner

	incentives scheme activity in the legacy period) which is derived from the sum of the TII Initial Allowance and the TII Allowance Adjustment for the same TII year.
TII Allowance Adjustment	means the variable component of the TII Actual Allowance for a given TII Year and shall take the value specified in Table 2 of Appendix 1 to Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) for the same TII Year.
TII Asset Value Adjusting Event (TII AVAE)	means an event as described in Part B of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).
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 in the legacy period for the purposes of setting the licensee's allowed revenue for a given TII Year, and taking the value specified in Table 1 of Appendix 1 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).
TII Initial Allowance	means the fixed component of the TII Actual Allowance for a given TII Year and shall take the value specified in Table 2 of Appendix 1 to Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) for the same TII Year.
TII Output Measures Adjusting Event (TII OMAE)	means an event as described in Part C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).
TII Provisional Revenue Adjustment Term	means the provisional revenue adjustment term for the financial 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 in the legacy period for the purposes of setting the licensee's allowed revenue for the financial year 2012/13.

TII Year	means a Relevant Year commencing 1 April 2009, 1 April 2010, 1 April 2011, or 1 April 2012.
Time Value of Money Adjustment	has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.
TIRG Relevant Year	<p>means, in relation to each transmission investment project i specified in Annex A of Special Condition 3J (Transmission Incentive for Renewable Generation), the Relevant Year in which a revenue allowance falls to be made under Special Condition 3J (Transmission Incentive for Renewable Generation) with respect to that transmission investment project i where:</p> <ul style="list-style-type: none"> (a) $t=p$ means the Relevant Year commencing on 1 April 2005; (b) $t=p$ to $t=-1$ means the preconstruction period (where $p \leq -1$); (c) $t=0$ means the Relevant Year in which construction of that transmission project i commences; (d) $t=0$ to $t=n$ means the construction period; (e) $t=n$ means the Relevant Year in which that transmission investment project i is commissioned; (f) $t=n+1$ means the Relevant Year in year 1 post commissioning period for that transmission investment project i and similar expressions shall be construed accordingly.
TO Regulatory Asset Value	means the financial balance representing expenditure by the licensee in respect of the Transmission Owner part of its transmission business which has been capitalised under regulatory rules. The licensee receives a return and depreciation on its combined TO and SO RAV balances in its price control allowed revenues.
Totex	has the meaning given in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.
Totex Capitalisation Rate	has the meaning given in the glossary of the ET1 Price Control Financial Handbook.
Totex Incentive Mechanism	has the meaning given to this term in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

Totex Incentive Mechanism Adjustment	has the meaning given to those terms in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.
Totex Incentive Strength Rate (TO)	means the incentive rate for the licensee set out in Appendix 1 of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments-Transmission Owner) and in Appendix 1 to Special Condition 6H (Arrangements for the recovery of uncertain costs).
Totex Incentive Strength Rate (SO)	means the incentive rate for the licensee set out in Appendix 1 to Special Condition 7D (Arrangements for the recovery of SO uncertain costs).
Transmission Area	has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).
Transmission Business	has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).
Transmission Business Activities	means the following activities of the licensee, in each case to the extent applicable: <ul style="list-style-type: none"> (a) the Transmission Owner Activity; and (b) the System Operator Activity, where System Operator Activity means the balancing services activity Balancing Services Activity , as that term is defined in standard condition C1 (Interpretation of Section C).
Transmission Constraints	has the meaning given in Standard Condition C16 (Procurement and use of balancing services).
Transmission Investment Incentives Projects	means a transmission investment project for which project-specific capital expenditure allowances in respect of one or more TII years are set out in the Appendices to Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) and are reflected in the provisions of that condition.
Transmission Investment for Renewable Generation (TIRG)	means the term TIRG, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation).
Transmission Licence	has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).
Transmission Licensee	has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).

Transmission Losses	means the units of electricity unaccounted for on the licensee’s Transmission System. Unless specified in paragraph 2K.3 (a) of Special Condition 2K (Electricity Transmission Losses reporting), the licensee may estimate “Transmission Losses” using the licensee’s own calculations.
Transmission Network Charges	means charges levied by the licensee in respect of the provision of Transmission Network Services.
Transmission Network Revenue	means the aggregate of revenue in the Relevant Year derived by the licensee from the provision of Transmission Network Services and from remote transmission asset rentals.
Transmission Network Revenue Restriction	means such parts of Special Conditions 6A (Legacy price control adjustments – Transmission Owner) to 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11 or 15 of the Act.
Transmission Network Services	has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).
Transmission Owner (TO)	has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).
Transmission Owner Activity	has the meaning given to the term in Standard Condition C1 (Interpretation of Section C).
Transmission Owner Services	means all services provided as part of the Transmission Business other than Excluded Services.
Transmission System	has the meaning given to this term in Section 4(4) of the Act.
Underground Cabling	for the purposes of Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver) means the laying of transmission circuits directly in the ground instead of being strung overhead on towers.
Unrecoverable Expenditure	for the purposes of Special Condition 3H (The Network Innovation Allowance) means expenditure on a NIA project the Authority has determined does not satisfy the requirements of the NIA Governance Document.
Use of System Charges	has the meaning given to the term in Standard Condition C1 (Interpretation of Section C).

Vanilla Weighted Average Cost of Capital	has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.
<u>Warming</u>	<u>means any actions taken by the licensee to ensure that a generator is able to provide a Black Start service where it would not otherwise be available to do so.</u>
Wider Works (WW)	means transmission reinforcement works that are designed to reinforce or extend the National Electricity Transmission System in order to make it compliant with the terms of 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 in accordance with Standard Condition C17 (Transmission system security standard and quality of service)).
<u>Wind Generation Capacity</u>	<u>means the Registered Capacity of each Wind Generator in respect of which Operational Metering is installed.</u>
<u>Wind Generation Forecasting Error</u>	<u>means the difference between the licensee's Day Ahead Forecast and the actual Wind Generation Output in respect of each hour.</u>
<u>Wind Generation Output</u>	<u>means the Active Power output in MW from each Wind Generator in respect of which Operational Metering is installed.</u>
<u>Wind Generator</u>	<u>means a Power Station comprising wind turbines.</u>
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.

Special Condition 4A. Restriction of System Operator Internal Revenue

Introduction

4A.1 The purpose of this condition is as follows:

- (c) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its internal costs in relation to ~~balancing services activity~~Balancing Services Activity; and
- (d) to set out the obligations of the licensee in respect of those charging restrictions.

Part A: Licensee's obligation

4A.2 The licensee must use its best endeavours to ensure that, in Relevant Year t, the revenue collected by the licensee from the ~~balancing services activity~~Balancing Services Activity associated with internal costs (i.e. excluding the revenue associated with procuring and using balancing services) 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

4A.3 The Maximum SO Internal Revenue is derived in accordance with the following formula (in this condition, the "Principal Formula"):

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

4A.4 In the Principal Formula:

- SOI_t means the amount of Maximum SO Internal Revenue in Relevant Year t.
- $SOPU_t$ means the amount set out against the licensee's name in Appendix 1 of this condition and represents the SO Opening Base Revenue Allowance in Relevant Year t 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 for Relevant Year t from the licensee's SO Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- $SOTRU_t$ has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year means the revenue adjustment made in Relevant Year t in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4A.5 of this condition.
- $RPIF_t$ has the value given to it by Part C of Special Condition 3A.

Part C: Calculation of SOTRU_t

4A.5 For the purposes of the Principal Formula, SOTRU_t is derived in accordance with the following formula:

$$\text{SOTRU}_t = \left(\frac{\text{RPIA}_{t-2} - \text{RPIF}_{t-2}}{\text{RPIA}_{t-2}} \right) \times \text{SOREV}_{t-2} \times \text{PVF}_{t-2} \times \text{PVF}_{t-1}$$

4A.6 In the above formula for SOTRU_t:

RPIA_{t-2} has the value given to it by Part C of Special Condition 3A.

RPIF_{t-2} has the value given to it by Part C of Special Condition 3A.

SOREV_{t-2} means the amount (in 2009/10 prices), for Relevant Year t-2, of the combined value of all revenue adjustments under the Relevant SO Special Conditions that are indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 4A.7 or 4A.8 of this condition.

PVF_t has the value given to it by Part C of Special Condition 3A.

4A.7 For the purposes of paragraph 4A.6 of this condition, but subject to paragraph 4A.8, SOREV_{t-2} is derived in accordance with the following formula:

$$\text{SOREV}_{t-2} = \text{SOPU}_{t-2} + \text{SOMOD}_{t-2} + \text{SOTRU}_{t-2}$$

where:

SOPU_{t-2} means an amount set out against the licensee's name in Appendix 1 of this condition and represents the SO Opening Base Revenue Allowance in Relevant Year t-2 determined by the Authority.

SOMOD_{t-2} means the value of the incremental change for Relevant Year t-2 from the licensee's SO Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B.

SOTRU_{t-2} means the revenue adjustment made in Relevant Year t-2 in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4A.5 of this condition.

4A.8 For the purposes of paragraph 4A.6 of this condition, in Relevant Year 2014/15 only SOREV_{t-2} is derived in accordance with the following formula:

$$\text{SOREV}_{t-2} = \frac{\text{CSOC}_{t-2} + \text{NC}_{t-2}}{\text{RPIF}_{t-2}}$$

where:

CSOC_{t-2} means, in respect of the Relevant Year commencing 1 April 2012, the Base Transmission Revenues derived in accordance with Part 2 (ii) of Special Condition AA5A (Balancing Services Activity Revenue Restriction) of this licence in the form in which it was in

force at 31 March 2013.

NC_{t-2}

means, in respect of the Relevant Year commencing 1 April 2012, the non-incentivised costs as derived in accordance with Part 2 (ii) of Special Condition AA5A of this licence in the form in which it was in force at 31 March 2013.

Appendix 1

Value of the SOPU_t term (2009/10 prices)

(see paragraph 4A.4 of this condition)

Licensee	SOPU(£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission plc	113.976	113.533	114.357	116.705	122.833	117.524	124.731	126.191

Special Condition 4B: Balancing Services Activity Conditions: Interpretation

- 4B.1 In this Special Condition and in Special Conditions 4C (Balancing Services Activity Revenue Restriction on External Costs) to 4J (The System Operator Innovation Roll-out Mechanism) -inclusive, all revenue shall be measured on an accruals basis, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
- 4B.2 Any term used in the formulae appearing in Special Conditions 4C to 4J inclusive and defined for the purposes of those formulae shall have the same meaning if used in any other formulae in those Special Conditions.
- 4B.3 In this Special Condition and in Special Conditions 4C to 4J-, any cost, charge, payment or amount may either be positive or negative.

Special Condition 4C: Balancing Services Activity Revenue Restriction on External Costs

Part A: Balancing services activity revenue restriction on external costs

4C.1 The licensee shall use its best endeavours to ensure that in respect of Relevant Year t the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + ET_t - OM_t + IncPayExt_t + RFIR_t + ROV_t + BSFS_t + NC_t + IONT_t$$

where:

$BXext_t$ represents the maximum allowed revenue derived in Relevant Year t from and associated with procuring and using balancing services;

$CSOBM_t$ which represents the cost to the licensee of bids and offers in the Balancing Mechanism accepted by the licensee in Relevant Year t less the total non-delivery charge for that Relevant Year, is the sum across Relevant Year t of the values of $CSOBM_j$ (being the daily System Operator BM cashflow for each settlement period j as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001);

$BSCC_t$ means the costs to the licensee of contracts for the availability or use of balancing services during the Relevant Year t, excluding costs within $CSOBM_t$ but including charges made by the licensee for the provision of balancing services to itself in the Relevant Year t;

ET_t means the amount of any adjustment to be made during the Relevant Year t in respect of any Relevant Year prior to Relevant Year t as provided in paragraph 4C.2;

OM_t means an amount representing the revenue from the provision of balancing services to others during the Relevant Year t, calculated in accordance with paragraph 4C.3;

- IncPayExt_t means an incentive payment for Relevant Year t calculated in accordance with paragraph 4C.4;
- NC_t means the Outage Change cost allowance in each Relevant Year t in accordance with 4C.22;
- IONT_t means the amount of any allowed outage cost adjustments in each Relevant Year t in accordance with paragraph 4C.32;
- BSFS_t means the amount which the licensee may recover in respect of the costs of Feasibility Studies for the provision of Black Start services in accordance with paragraph 4G.5 of Special Condition 4G (Black Start Cost Incentive);
- RFIIR_t means the incentive payment which the licensee may derive from the Wind Generation Forecasting Incentive in Relevant Year t in accordance with Special Condition 4H (Wind Generation Forecasting Incentive);
- ROV_t means the Roll-out Value which the licensee may derive from the System Operator Innovation Roll-out Mechanism in Relevant Year t in accordance with Special Condition 4J (System Operator Innovation Roll-out Mechanism); and
- j shall mean a settlement period (being half an hour) as defined in the BSC.

Part B: Balancing Services Activity adjustments

4C.2 For the purposes of 4C.1, the term ET_t which relates to prior period adjustments in respect of the Relevant Year t shall mean:

- (a) the costs, whether positive or negative, to the licensee of:
- (i) bids and offers in the Balancing Mechanism accepted by the licensee in any period before Relevant Year t less the total non-delivery charge for that period; and

- (ii) contracts for the availability or use of balancing services during any period before Relevant Year t, excluding costs within CSOBM_t for that period, but including charges made by the licensee for the provision of balancing services to itself in that period;

in each case after deducting such costs to the extent that they have been taken into account in any Relevant Year in computing the terms CSOBM_t or BSCC_t; and

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

Part C: Provision of balancing services to others

4C.3 For the purposes of paragraph 4C.1, OM_t (the amount representing the revenue from the provision of balancing services to others) shall be the sum of:

- (a) the total amount (exclusive of interest and value added tax attributable thereto) recovered by the licensee in respect of Relevant Year t under any agreements entered into between an electricity supplier (being the holder of a supply licence granted or treated as granted under Section 6(1)(d) of the Act) or network operator (as defined in the Grid Code) and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a user system (as defined in the Grid Code) are charged to that electricity supplier or network operator (as defined in the Grid Code); and
- (b) the total costs (exclusive of interest and value added tax attributable thereto) incurred by the licensee in respect of Relevant Year t which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the National Electricity Transmission System or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 4C.3 (a) of this Special Condition) or network operator (as defined in the Grid Code).

Part D: Determination of incentive payments on external costs

4C.4 For the purposes of paragraph 4C.1, the term IncPayExt_t shall be derived from the following formula:

$$IncPayExt_t = [SF_t (MT_t - IBC_t) + CB_t]$$

where:

SF_t which is a Balancing Services Activity sharing factor in respect of Relevant Year t, has the value specified against the relevant value of IBC_t for the Relevant Year t in the column headed SF_t in Table 3 in paragraph 4C.39.

MT_t which is a target for Balancing Services Activity incentivised external costs in respect of Relevant Year t, has the value specified against the relevant value of IBC_t for the Relevant Year t in the column headed MT_t in Table 3 in paragraph 4C.39.

IBC_t which is the cost of balancing services on which the licensee is incentivised during Relevant Year t, which is calculated in accordance with the formula given in paragraph 4C.5.

CB_t which is a balancing services sharing factor offset in respect of Relevant Year t, has the value specified against the relevant value of IBC_t for the Relevant Year t in the column headed CB_t in Table 3 in paragraph 4C.39.

4C.5 For the purposes of paragraph 4C.4, the term IBC_t in respect of Relevant Year t shall be calculated in accordance with the following formula:

$$IBC_t = CSOBM_t + BSCC_t - RT_t - OM_t - BSFS_t$$

where:

RT_t means the amount of any allowed income adjustments given by paragraph 4C.16 ~~in respect of the Relevant Year t or Period p (bearing the meaning of the term RT_p in this licence as at 31 March 2013).~~

$BSFS_t$ means any costs recovered via the term $BSCC_t$ in respect of Feasibility Studies ~~for Black Start~~ in accordance with Special Condition 4G.

Part E: Income adjusting events under the ~~balancing services activity~~Balancing Services Activity revenue restriction on external costs

4C.6 In Relevant Year t, an income adjusting event is any of the following:

- (a) an event or circumstance constituting force majeure under the BSC;
- (b) an event or circumstance constituting force majeure under the CUSC;
- (c) a Security Period;
- (d) (where the event or circumstance takes place in Relevant Year t or Relevant Year t-1) an unforeseen event or circumstance other than those listed above which leads to consequences beyond the reasonable control of the licensee which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with Part E2 of this condition; and
- (e) (where the event or circumstance takes place in Period p) an event or circumstance other than those listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with Part E2 of this condition.

where the income adjusting event or circumstance has:

- (a) increased or decreased the value of IBC_t by more than £10,000,000 (the “threshold amount”). This threshold amount does not apply in respect of subparagraph 4C.6(c) above; or
- (b) in the Period p, in which the income adjusting event had occurred, increased or decreased the value of IBC_p (bearing the meaning of that term in this licence as at 31 March 2013) by more than £2,000,000.

4C.7 For the purposes of the period 1 April 2013 to 31 March 2015, events or circumstances arising directly from the implementation or otherwise of the following proposed modifications and amendments (both the original and any alternative unless otherwise specified) listed in Tables 1 and 2 below shall not qualify as an income adjusting event for the purpose of paragraph 4C.6 above:

Table 1:

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

Table 2:

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

Part E1: Notice of proposed income adjusting event

- 4C.8 Where the licensee considers, and can provide supporting evidence that, in respect of the Relevant Year in which the event or circumstance occurred or Period p, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.
- 4C.9 Where any other Party (as defined in the BSC) considers, and can provide supporting evidence that, in respect of the Relevant Year in which the event or circumstance occurred or Period p, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then that Party may give notice of this event to the Authority.
- 4C.10 A notice provided to the Authority under paragraphs 4C.8 or 4C.9 must, in the case of the licensee, and should, in so far as is practicable in the case of any other Party, give particulars of:
- (a) the event to which the notice relates and the reason(s) why the person giving the notice considers this event to be an income adjusting event;
 - (b) the amount of any change in costs and/or expenses that can be demonstrated by the person giving the notice to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
 - (c) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (d) any other analysis or information which the person submitting the notice considers to be sufficient to enable the Authority and the relevant parties to fully assess the event to which the notice relates.
- 4C.11 If the Authority considers that the analysis or information provided in sub-paragraphs 4C.10(a) to 4C.10(d) above is insufficient to enable both the Authority and the relevant parties to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.
- 4C.12 A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and, in any event, not later than three

months after the end of the Period p or the Relevant Year t in which the income adjusting event occurred.

- 4C.13 The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
- 4C.14 Any notice submitted to the Authority under either paragraphs 4C.8 or 4C.9 above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:
- (a) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
 - (b) the extent to which the disclosure of the information mentioned in sub-paragraph 4C.14(a) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

Part E2: The Authority's determination

- 4C.15 Following consultation with relevant parties, including the licensee, BSC Parties and CUSC Parties, the Authority shall determine:
- (a) whether any or all of the costs and/or expenses given in a notice pursuant to paragraphs 4C.8 or 4C.9 were caused or saved by an income adjusting event; and
 - (b) whether the event or circumstance has increased or decreased the value of IBC_t by more than the threshold amount, save in the case of sub-paragraph 4C.6(c) where the threshold amount shall not apply; or
 - (c) in respect of an event occurring in Period p , whether the event or circumstance has increased or decreased the value of IBC_p (bearing the meaning of that term in this licence as at 31 March 2013) by more than £2,000,000; and
 - (d) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed value of income adjustment would secure that effect.
- 4C.16 In relation to the Relevant Year t or Period p , the allowed income adjustment (~~RT_t or RT_p~~ (bearing the meaning of that term in this licence as at 31 March 2013) respectively) shall be:
- (a) the value determined by the Authority under paragraph 4C.15 above; or

- (b) if the Authority has not made a determination under 4C.15 above within three months of the date on which notice of an income adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the notice given to the Authority under sub-paragraph 4C.10(c); or
- (c) in all other cases zero, including situations where the Authority has not made a determination under 4C.15 above within three months of the date on which notice of an income adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the relevant parties that the Authority considers that the analysis or information provided in accordance with paragraphs 4C.10 and 4C.11 is insufficient to enable the Authority and relevant parties to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.

4C.17 The Authority's decision in relation to any notice given under paragraphs 4C.8 or 4C.9 shall be in writing, shall be copied to the licensee and shall be in the public domain.

4C.18 The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

Part F: Transmission Owner incentives

4C.19 Where there is a failure to agree between the licensee and a Transmission Owner in relation to:

- (a) whether a change to the outage plan is an Outage Change as defined in paragraph 4C.20; or
- (b) the net costs reasonably incurred by the Transmission Owner as a result of an Outage Change

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

4C.20 An "Outage Change" is a change notified to a Transmission Owner by the licensee on or after week 49 to the outage plan, as updated from time to time in accordance with the STC, other than:

- (a) a change to the outage plan requested by a Transmission Owner (the “original change”); and
- (b) such changes notified to the Transmission Owner by the licensee which:
 - (i) the licensee and the Transmission Owner agree are necessary in order to give effect to the original change, or
 - (ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change; and
 - (iii) without prejudice to sub-paragraphs 4C.20(a) and 4C.20(b) above, any change to the outage plan notified to the Transmission Owner by the licensee which the licensee and the Transmission Owner agree is not an Outage Change under this licence condition (a “non-chargeable outage change”). For the avoidance of doubt, any costs and/or expenses incurred by the licensee in relation to a non-chargeable outage change will not be considered by the Authority to be a reasonable cost or expense in relation to an outage cost adjusting event notified by the licensee under paragraph 4C.25.

4C.21 For the purposes of paragraph 4C.19 and paragraph 4C.20, “outage plan” and “week 49” shall have the same meanings as defined or used in the STC.

4C.22 The Outage Change cost allowance (NC_t) shall be calculated in accordance with the following formula:

$$NC_t = (ON_t + ONTRU_t) \times RPIF_t$$

where:

ON_t means an allowance for payments by the licensee in respect of Outage Changes and has the value £1,146,800 (in 2009/10 prices) for the Relevant Year t unless determined otherwise by the Authority;

$ONTRU_t$ has the value zero in Relevant Years 2013/14 and 2014/15 and in each subsequent Relevant Year means the revenue adjustment made in Relevant Year t in respect of the actual value of the Retail Prices Index in Relevant Year $t-2$ minus the assumed value of the Retail

Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4C.23 of this condition; and

RPIF_t has the value given to it by Special Condition 3A (Restriction of Transmission Network Revenue).

4C.23 For the purposes of paragraph 4C.22, ONTRU_t is derived in accordance with the following formula:

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

where:

RPIA_{t-2} has the value given to it by Part C of Special Condition 3A;

RPIF_{t-2} has the value given to it by Part C of Special Condition 3A;

NC_{t-2} means the Outage Change cost allowance as derived in accordance with paragraph 4C.22 of this condition; and

PVF_t has the value given to it by Part C of Special Condition 3A.

4C.24 An outage cost adjusting event in Relevant Year t may arise from either of the following:

(a) where the actual costs incurred by the licensee in making outage changes are, or where the licensee's reasonable expectation of the actual costs in making outage changes will be either less than or in excess of ON_t in each case by more than £300,000 (the "outage threshold amount") or such other figure as the Authority has specified for the Relevant Year where ON_t has the value ascribed to it in paragraph 4C.22 above; and

(b) an event or circumstance other than that in paragraph 4C.24(a) above which is, in the opinion of the Authority, an outage cost adjusting event and is approved by it as such in accordance with paragraph 4C.31.

Part F1: Notice of proposed outage cost adjusting event

4C.25 Where the licensee considers, and can provide supporting evidence that, in respect of Relevant Year t, there have been costs and/or expenses that have been incurred or saved by an outage cost adjusting event, then the licensee shall give notice of this event to the Authority.

4C.26 A notice provided to the Authority under 4C.25 shall give particulars of:

- (a) the event to which the notice relates and the reason(s) why the licensee considers this event to be an outage cost adjusting event;
- (b) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
- (c) the amount of any allowed outage cost adjustment proposed as a consequence of that event and how this allowed outage cost adjustment has been calculated; and
- (d) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in paragraph 4C.31 to fully assess the event to which the notice relates.

4C.27 If the Authority considers that the analysis or information provided in sub-paragraphs 4C.26(a) to 4C.26(d) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 4C.31 to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed outage cost adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.

4C.28 A notice of an outage cost adjusting event shall be given as soon as is reasonably practicable after the occurrence of the outage cost adjusting event, and, in any event, not later than three months after the end of the Relevant Year in which it occurs.

4C.29 The Authority will make public, excluding any confidential information, any notice of an outage cost adjusting event following its receipt.

4C.30 Any notice submitted to the Authority under paragraph 4C.25 above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:

- (a) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
- (b) the extent to which the disclosure of the information mentioned in sub-paragraph 4C.30(a) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

Part F2: The Authority's determination

4C.31 The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):

- (a) whether any or all of the costs and/or expenses given in a notice pursuant to 4C.25 were caused or saved by an outage cost adjusting event;
- (b) whether the event or circumstance has increased or decreased the licensee's relevant costs in making outage changes such that they will be either less than or in excess of ON_t in each case by more than the outage threshold amount; and
- (c) if so, whether the amount of the proposed outage cost adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that outage cost adjusting event had not taken place, and if not, what allowed outage cost adjustment would secure that effect.

4C.32 In relation to the Relevant Year t , the allowed outage cost adjustment ($IONT_t$) for the purposes of paragraph 4C.1 shall be:

- (a) the value determined by the Authority under paragraph 4C.31 above; or
- (b) if the Authority has not made a determination under paragraph 4C.31 above within three months of the date on which notice of an outage cost adjusting event was provided to the Authority, the amount of the allowed outage cost adjustment proposed as a consequence of the event in the notice given to the Authority under 4C.26(c); or
- (c) in all other cases zero, including situations where the Authority has not made a determination under paragraph 4C.31 above within three months of the date on which notice of an outage cost adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 4C.26 and/or 4C.27 is insufficient to enable the Authority to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed outage cost adjustment.

4C.33 The Authority's decision in relation to any notice given under paragraph 4C.25 shall be in writing, shall be copied to the licensee and shall be in the public domain.

4C.34 The Authority may revoke an approval of an outage cost adjusting event and allowed outage cost adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any outage cost adjusting event and allowed outage cost adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

Part K: SO Methodologies and update provisions

4C.35 The licensee shall, in respect of Relevant Year t , establish, and publish the following SO Methodologies as approved by the Authority for determining Modelled Target Costs $_t$ (as defined in paragraph 4C.40):

- (a) a methodology for determining the ex-ante or ex-post treatment of modelling inputs;
- (b) a methodology for modelling the costs of managing Transmission Constraints. This methodology should also include those ex-ante inputs which may be updated on 1 April 2014 for the Relevant Year 2014/15; and
- (c) a methodology for the modelling of energy costs. This methodology should also include those ex-ante inputs which may be updated on 1 April 2014 for the Relevant Year 2014/15.

4C.36 The licensee may prepare and submit proposals for revised SO Methodologies in respect of the Relevant Year 2014/15 to the Authority by 31 December in Relevant Year t for approval by the Authority by 31 March in the Relevant Year t and for implementation at the commencement of the the Relevant Year 2014/15. The licensee shall:

- (a) send a copy of the proposed revised SO Methodologies to the Authority and to any person who requests a copy; and
- (b) not revise any SO Methodologies referred to in 4C.35 until the Authority directs the licensee to make the revisions.

4C.37 If the Authority approves and directs the changes to the SO Methodologies, the licensee shall revise the SO Methodologies and shall publish the revised SO Methodologies on its website.

4C.38 If the licensee considers that an error or errors have arisen which prevent the SO Models from appropriately reflecting the SO Methodologies referred to in 4C.35, or if the licensee considers that an input error or errors into the SO Models have arisen as a result of information provided by any third party, the licensee shall notify the Authority of the error or errors and the materiality of the error or errors and will promptly seek to correct the error or errors. The Authority will have until three months after any notice has been submitted to direct the licensee to remove the correction to the error or errors.

Part L: Terms used in the ~~balancing services activity~~ Balancing Services Activity revenue restriction

4C.39 For the purpose of 4C.4 of Part D of this condition, the terms MT_t , SF_t and CB_t shall be selected against the appropriate value of IBC_t (which shall be determined in accordance with paragraph 4C.5 of Part D of this condition) from Table 3 below:

Table 3:

IBC_t (£million)	MT_t (£million)	SF_t	CB_t (£million)
IBC _t < (Incentive Target Cost _t – 100)	0	0	25
(Incentive Target Cost _t – 100) ≤ IBC _t < (Incentive Target Cost _t)	Incentive Target Cost _t	25%	0
(Incentive Target Cost _t) = IBC _t	IBC _t	0	0
(Incentive Target Cost _t) ≤ IBC _t < (Incentive Target Cost _t + 100)	Incentive Target Cost _t	25%	0
IBC _t ≥ (Incentive Target Cost _t + 100)	0	0	– 25

4C.40 For the purposes of paragraph 4C.39, Incentive Target Cost (in £ million) in respect of Relevant Year t shall be calculated in accordance with the following formula:

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

where:

Modelled
Target
Costs_t

means the target cost (in £ million) to the licensee of procuring and using balancing services (being the external costs of the Balancing Services Activity) derived in accordance with the SO Methodologies referred to in paragraph 4C.35. The SO Models and data used by the licensee to determine Modelled Target Costs shall be as agreed between the Authority and the licensee in respect of Relevant Year t; and

BSTC_t

means the target cost for the licensee for Black Start in respect of Relevant Year t, which shall have the value as set

out in Special Condition 4G.

In respect of any Relevant Year t commencing on or after 1 April 2015, the terms MT_t , SF_t and CB_t shall be set to zero.

Special Condition 4D: Restriction on Contracting with BSC Parties

- 4D.1 The licensee shall not enter into any contract with a BSC Party for the provision of balancing services for the management of Transmission Constraints under which that BSC Party shall agree with the licensee any condition to be applied to the prices at which it will submit offers or bids in the Balancing Mechanism in respect of any BM Unit.
- 4D.2 This prohibition shall continue in force until 31 March 2015 unless the Authority gives notice to the licensee that it shall end on an earlier date.

Special Condition 4E: Requirement to Conduct a Review and Continue to Develop- Enduring Models for Forecasting the Costs of Procuring and Using Balancing Services

- 4E.1 The purpose of this condition is to require the licensee to review the SO Models and develop enduring models which are able to meet a number of Objectives (as defined in paragraph ~~4E~~3 of this condition) in respect of forecasting the costs expected to be incurred by the licensee in procuring and using balancing services (being the external costs of the Balancing Services Activity).
- 4E.2 The licensee shall review the ability of the SO Models to achieve the Objectives set out in paragraph 4E.3 of this Special Condition and shall develop enduring models accordingly which seek to achieve the Objectives to be implemented on 1 April 2015.
- 4E.3 For the purposes of this condition, the “Objectives” to which the licensee must have regard when developing the enduring models include, but are not limited to:
- (a) developing forecasts of the target costs of the Balancing Services Activity with a forward projection of eight years;
 - (b) ensuring the enduring models are suitable for forecasting the external costs of the Balancing Services Activity undertaken by the licensee and having regard to any changes in the role of the licensee in the conduct of the Balancing Services Activity;
 - (c) developing enduring models which seek to attain optimum performance with regards to the carrying on of the Balancing Services Activity; and
 - (d) enabling industry participants to have a greater understanding of the projected level of the future costs of the Balancing Services Activity.
- 4E.4 The licensee shall update and engage with interested parties for the purposes of developing the enduring models at relevant industry fora, including but not limited to its Operational Forum Meetings. Where the Authority or the licensee considers it appropriate, the licensee shall conduct a consultation with interested parties (for not less than 28 days) in respect of the review.
- 4E.5 The Authority may, from time to time, request the licensee to provide information regarding the progress of the review.
- 4E.6 The licensee shall comply with all the requirements of this condition in a timely fashion and in good faith.

Special Condition 4F: Requirement to Develop Enduring Methodologies for the Purposes of Identifying a Target for the Costs of Procuring and Using Balancing Services

- 4F.1 The purpose of this condition is to require the licensee to develop enduring methodologies for the purpose of enduring arrangements for the setting of a revenue restriction on external costs of the Balancing Services Activity.
- 4F.2 The licensee shall conduct a review of the SO Methodologies in order to introduce enduring methodologies which meet the following objectives:
- (a) developing forecasts of the target costs of the Balancing Services Activity with a forward projection of eight years;
 - (b) ensuring the enduring methodologies are suitable for forecasting a target of the costs of the Balancing Services Activity undertaken by the licensee and having regard to any changes in the role of the licensee in the conduct of the Balancing Services Activity; and
 - (c) enabling industry participants to have a greater understanding of the projected level of future costs of the Balancing Services Activity.
- 4F.3 In developing the enduring methodologies, the licensee shall:
- (a) consult with interested parties on the enduring methodologies for not less than 28 days (the consultation period);
 - (b) submit to the Authority after the close of the consultation period any proposed revisions to the SO Methodologies (the revisions) which would be needed to introduce the enduring methodologies no later than 31 December 2014; and
 - (c) implement the revisions to take effect from 1 April 2015 unless prior to that date the licensee is directed not to implement the revisions by the Authority.

Special Condition 4G: Black Start Cost Incentive

- 4G.1 The purpose of this condition is to determine the values relating to the external costs for Black Start service provision (BSTC_t) in each Relevant Year t.
- 4G.2 For the purposes of paragraph 4C.4039 of Part L of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs), BSTC_t shall take the values set out in Table 1 below, unless revised in accordance with paragraph 4G.4 below:

Table 1:

Relevant Year	BSTC _t
1 April 2013 to 31 March 2014	£21.05 million
1 April 2014 to 31 March 2015	£21.45 million

- 4G.3 The licensee may prepare and submit proposals to the Authority for revisions to the value of BSTC_t which is to be applied in the Relevant Year 2014/15 by 31 December 2013 to reflect any increase or decrease in the costs that the licensee expects to incur in that Relevant Year in respect of:
- (a) Warming generators that are contracted to provide a Black Start service;
 - (b) Capital Contributions to New Providers of Black Start services; and
 - (c) contracts for the availability of Black Start services from New Providers.
- 4G.4 The Authority shall approve some or all of the revisions to the value of BSTC_t and shall direct any changes to the value of BSTC_t which shall be deemed to be included in Table 1 in paragraph 4G.2 by 31 March 2014 by virtue of the direction where it is satisfied that the proposals for revisions to the BSTC_t are efficient and will provide long term value for electricity consumers.
- 4G.5 The licensee may, by the end of the Relevant Year t, prepare and submit a notification to the Authority of any costs in respect to that Relevant Year t as a result of any payments it has made, or expects to make to New Providers in respect of Feasibility Studies which it considers should be recovered by means of BSFS_t under the term BXext_t in paragraph 4C.1 in Part A of Special Condition 4C.
- 4G.6 The Authority shall approve and direct recovery of the costs by three months after the end of the Relevant Year t by means of the BSFS_t term where it is satisfied that the payments were, or will be efficiently incurred and will provide long term value for electricity consumers. The Authority shall direct any consequential changes to the value of BSFS_t under the term BXext_t in paragraph 4C.1 in Part A of Special Condition 4C.

Special Condition 4H: Wind Generation Forecasting Incentive

- 4H.1 The purpose of this condition is to establish arrangements to determine the incentive payment that the licensee shall derive by means of the term $RFIIR_t$ under the term $BXext_t$ in 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) as a result of the financial incentive placed upon the licensee to improve the accuracy of its forecast of the amount of Wind Generation Output in the period from 1 April 2013 to 31 March 2015.
- 4H.2 The incentive payment (in £ million) which the licensee shall derive from the Wind Generation Forecasting Incentive, $RFIIR_t$ in respect of Relevant Year t shall be derived from the following formula:

$$RFIIR_t = \sum_{m=1}^{12} MRFI_m$$

where:

$MRFI_m$ means the monthly wind generation forecasting incentive revenue in respect of the relevant month m and shall be derived from the following formula:

$$MRFI_m = \text{MAX} \left[RFICAP_m \left(1 - \frac{RFIO_m}{RFIIF_m} \right), RFIFLO_m \right]$$

where:

$RFIIF_m$ means the Wind Generation Forecasting Incentive target factor for the relevant month m in respect of Relevant Year t and takes the value specified in Table 1:

Table 1:

Period	m value	$RFIIF_m$ value
1 April 2013 to 30 September 2013	m=1,2,3,4,5,6	0.0475
1 October 2013 to 31 March 2014	m=7,8,9,10,11,12	0.0625
1 April 2014 to 30 September 2014	m=1,2,3,4,5,6	0.0450
1 October 2014 to 31 March 2015	m=7,8,9,10,11,12	0.0600

$RFICAP_m$ means the Wind Generation Forecasting Incentive cap for the relevant month m in respect of each Relevant Year t and shall take the value £0.25 million;

RFIFLO_m means the Wind Generation Forecasting Incentive floor for the relevant month m in respect of each Relevant Year t and shall take the value -£0.25 million; and

RFIO_m means the average of the hourly Wind Generation Forecasting Error achieved by the licensee in each relevant month m in respect of each Relevant Year t and shall be derived from the following formula:

$$RFIO_m = \frac{1}{N} \sum_{n=1}^N RFIO_n$$

where:

N is the total number of hours within the relevant calendar month m; and

RFIO_n is the percentage mean absolute error between the licensee's Day Ahead Forecast and the actual Wind Generation Output in respect of hour n for the relevant calendar month m and is derived from the following formula:

$$RFIO_n = \frac{|RFIT_n - RFIP_n|}{RFIC_n}$$

where:

RFIT_n means the total Day Ahead Forecast produced by the licensee in respect of hour n for the relevant month m, ~~subject to paragraph 4H.4 below.~~

RFIP_n means the total actual Wind Generation Output in hour n in the relevant month m.

RFIC_n means the total Wind Generation Capacity in hour n in the relevant month m.

4H.3 For the purposes of the terms *RFIT_n*, *RFIP_n* and *RFIC_n* above, each is the total (in MW) of all Wind Generators with installed Operational Metering for the hour n.

4H.4 No later than 15 working days after the end of each month m in the Relevant Year t, the licensee shall notify the Authority of the following in respect of that month:

(a) the overall Wind Generation Forecasting Error achieved (*RFIO_m*);

(b) the total Day Ahead Forecast (*RFIT_n*) for each hour;

(c) the total actual Wind Generation Output (*RFIP_n*) for each hour; and

(d) the total Wind Generation Capacity ($RFIC_n$) for each hour.

4H.5 The licensee shall publish an additional forecast of Wind Generation output no later than 05:00 hours on the day before the day to which the forecast relates.

Special Condition 4I: Requirement to Report on System Transmission Losses

- 4I.1 The purpose of this condition is to require the licensee to publish certain information regarding Transmission Losses on the National Electricity Transmission System. The licensee shall publish the information specified in this condition on its website.
- 4I.2 The licensee shall publish and maintain an up to date explanation of how Transmission Losses are taken into account when carrying out the Balancing Services Activity.
- 4I.3 The licensee shall publish as soon as is reasonably practicable, monthly data showing the total volume of historic Transmission Losses and an indication of the cost of Transmission Losses from the National Electricity Transmission System.
- 4I.4 The licensee shall publish information, or provide details of the location of information, which:
 - (a) identifies and explains the expected drivers that may impact the total volume of expected Transmission Losses- on the National Electricity Transmission System over the course of the next ten years; and
 - (b) a description of how the licensee takes expected Transmission Losses over the course of the next ten years into account when undertaking its planning activities in relation to the Balancing Services Activity.

Special Condition 4J. The System Operator Innovation Roll-out Mechanism

Introduction

- 4J.1 The purpose of this condition is to determine any appropriate revisions to Roll-Out Values (“ROV_t”) relating to SO Innovation Roll-out Costs recovered by the licensee under the term BXext_t for the purposes of paragraph 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).
- 4J.2 ROV_t shall take the values as set out in Table 1 below (which shall be determined in accordance with Part E of this condition).

Table 1:

Relevant Year	ROV _t
2013/14	0
2014/15	0

- 4J.3 The value of ROV_t relating to a particular Relevant Year represents the total amount of the licensee’s SO Innovation Roll-out Costs that the licensee is allowed to recover as determined by the Authority for that Relevant Year.
- 4J.4 The application of the mechanisms in this condition provides for:
- (a) the licensee to propose adjustments to the value of $-ROV_t$ in respect of the Relevant Year 2014/15;
 - (b) determinations by the Authority in relation to proposals by the licensee under sub-paragraph 4J.4(a); and
 - (c) the direction, where applicable, of $-a$ revised value of ROV_t in relation to the Relevant Year 2014/15.
- 4J.5 The determination and direction of a revised- value of ROV_t, where applicable, will result in an adjustment to the value of BXext_t as derived for Relevant Year t for the purposes of paragraph 4C.1 of Part A of Special Condition 4C and shall be deemed to be set out in Table 1 in paragraph 4J.2 by virtue of that direction.

Part A: Features that qualify a SO Innovation Roll-out for additional funding

- 4J.6 The SO Roll-out by the licensee of a Proven SO Innovation will allow the licensee to receive additional funding in respect of the Relevant Year but only where the Authority is satisfied that the SO Roll-out:
- (a) will deliver Carbon Benefits or any wider environmental benefits;
 - (b) will provide long-term value for money for electricity consumers;

- (c) will not lead to the licensee receiving commercial benefits (including benefits from other incentives in relation to the Balancing Services Activity) which are greater or equal to the costs of implementing the Proven SO Innovation in question within the Relevant Year 2014/15; and
- (d) will not be used to fund any of the Ordinary SO Business Arrangements of the licensee.

Part B: Licensee's ability to propose a relevant adjustment

- 4J.7 The licensee may, by notice to the Authority, and in accordance with Parts C and D of this condition below, propose no more than three relevant adjustments within the meaning of paragraph 4J.8 of this condition to recover costs incurred in implementing an SO Roll-out up to a total of £10 million.
- 4J.8 A relevant adjustment is an adjustment:
- (a) which the licensee believes will enable it to recover SO Innovation Roll-out Costs associated with a single Proven SO Innovation that would not otherwise be recoverable under the Special Conditions; and
 - (b) which applies only in respect of SO Innovation Roll-out Costs that have not yet been incurred.

Part C: Application windows for relevant adjustment proposals

- 4J.9 The licensee may propose a relevant adjustment or adjustments by notice served under Part B of this condition only in the period up to and including 31 March 2014 for the adjustment to ROV_t for SO Innovation Roll-out Costs which will take place in the Relevant Year 2014/15.

Part D: Other provisions relating to the licensee's proposal

- 4J.10 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 SO Innovation that the licensee proposes as an SO Roll-out;
 - (c) propose the amount of the relevant adjustment and set out, by reference to the SO Innovation Roll-out Costs, the basis on which the licensee has calculated the relevant adjustment;

- (d) demonstrate how each of the criteria set out in Part A of this condition above will be fulfilled by the additional funding sought; and
- (e) propose relevant outputs or other end products against which the SO Roll-out will be assessed.

Part E: Authority's determination of a relevant adjustment

- 4J.11 Where the licensee serves a notice under Part B of this condition, the Authority must, by 31 June 2014 determine whether the proposed relevant adjustment should result in a revision to the ROV_t subject to paragraph 4J.10 of this condition.
- 4J.12 In determining any relevant adjustment under Part E of this condition, the Authority will:
- (a) consult the licensee and other relevant parties;
 - (b) determine whether the direction should include such other terms as the Authority considers appropriate; and
 - (c) have particular regard to the purposes of this condition, and, the notice made under Part B of this condition.

Part F: Procedure for direction of revised ROV_t by the Authority

- 4J.13 Any revised value of ROV_t determined by the Authority in accordance with Part E of this condition will be directed by the Authority by no later than 31 June 2014 and shall be deemed to be set out in Table 1 in paragraph 4J.2.
- 4J.14 When issuing any directions under paragraph 4J.13 of this condition, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 4J.15 The notice referred to in paragraph 4J.14 of this condition will state that any revised ROV_t in respect of the Relevant Year 2014/15 the period from 1 April 2014 to 31 March 2015 has been determined in accordance with Part E of this condition.