

**NOTE: ALL NEWLY PROPOSED MODIFICATIONS THAT WERE NOT INCLUDED IN THE ANNEX OF OUR PREVIOUS CONSULTATION HAVE BEEN HIGHLIGHTED. TRACK CHANGES THAT ARE NOT HIGHLIGHTED WERE INCLUDED IN THE ANNEX OF OUR PREVIOUS CONSULTATION.**

## **SPECIALS. NGESO**

### **Chapter 1: Definitions**

**Note:** A number of the definitions used in the existing NGET transmission licence are relevant for only the ESO or TO. Only the relevant definitions will be transferred to the ESO licence and, similarly, only the relevant definitions will be kept in the NGET TO licence. Chapter 1 of the Special Licence Conditions for the ESO will not be revised until drafting of the special licence conditions is finalised. After this, all definitions will be revisited and allocated to NGET and/or NGESO licences as appropriate.

### **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).
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.
Associate	means: <ul style="list-style-type: none"> <li>(a) an Affiliate or Related Undertaking of the licensee;</li> <li>(b) an Ultimate Controller (as defined in standard condition A1 (Definitions and interpretation)) of the licensee;</li> <li>(c) a Participating Owner of the licensee; or</li> <li>(d) a Common Control Company.</li> </ul>
Authority	means the Gas and Electricity Markets Authority.
Authority's website	means <a href="http://www.ofgem.gov.uk">www.ofgem.gov.uk</a> .

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: Interpretation) and Special Conditions 4D (Restriction on Contracting with BSC Parties) to <del>4KJ (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External CostsSO-TO mechanism)</del> inclusive as are ancillary thereto.
<del>Base Transmission Revenue</del>	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);

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

**BM Unit** shall have the meaning given in the BSC.

**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.

**BSC** shall have the meaning given in Standard Condition C1 (Interpretation of Section C).

**BSC Party** has the meaning given in Standard Condition C1 (Interpretation of Section C).

**Capex Rolling Incentive** means the mechanism giving rise to the capital expenditure incentive revenue

adjustment term, CxIncRA, 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).

Capital Contributions

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.

~~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.~~

Common Control Company

means any company, any of whose Ultimate Controllers (applying the definition in standard condition A1 (Definitions and interpretation) but substituting that company for the licensee) is also an Ultimate Controller of the licensee.

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 disapplied 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 Market Reform  
Enduring Solution

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 carrying on EMR Functions (as defined in Chapter 5 of Part 2 of the Energy Act 2013)

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

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:

- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
- (b) contains, in particular, the ET1 Price Control Financial Methodologies,

as modified from time to time in accordance with the provisions of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

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 means the methodologies that:

- (a) are named as such in the ET1 Price Control Financial Handbook; and
- (b) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,

as modified from time to time in accordance with the provisions of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

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 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).~~

~~Funded Pre-construction Works~~

~~means specific works planned or undertaken by the licensee in respect of a given Scheduled Project, being those works for which key project milestones are defined in respect of pre-construction works and which are identified by the Authority as in scope of pre-construction cost allowances specified in Appendix 2 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).~~



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

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

**Further Works** means specific works planned or undertaken by the licensee in respect of a given Transmission Investment Incentives Project, being works which do not fall within the definition of Funded Pre-construction Works or Funded Construction Works but for which project-specific capital expenditure allowances in respect of one or more TII years are specified in Table 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.

**Generation Connections** 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.

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

## 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

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:

- (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).

Independent Examiner

means a person or persons nominated by, and independent of, the licensee or any business or Associate of the licensee with the skill and knowledge to undertake an evaluation of the practices, procedures and systems implemented by the licensee in order to secure compliance with Special Condition 2N (Electricity Market Reform) and 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities System Operator Functions).

Information

for the purposes of Special Condition 2N

(Electricity Market Reform) and Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its performing its Relevant System Operator Functions Planning ActivitiesRelevant System Planning Activities) means all information of whatever nature and in whatever form including, without limitation, in writing, orally, electronically and in a visual or machine-readable medium including CD ROM, magnetic and digital form.

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.

Interconnector Owner

means the holder for the time being of an electricity interconnector licence in relation to which licence the Authority has issued a Section G (Cap and Floor Conditions) Direction and in which Section G remains in

effect (whether or not subject to any terms included in the Section G (Cap and Floor Conditions) Direction or to any subsequent variation of its terms, to which the licensee may be subject).

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~~

	<p>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.</p>
New Network Equipment	<p>for the purposes of Special Condition 6E and Special Condition 4J (The System Operator Innovation Roll-out Mechanism) (The 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.</p>
New Provider	<p>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.</p>
NIA Governance Document	<p>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.</p>
NIA Percentage	<p>means the percentage of Base Transmission Revenue which the licensee may use for Eligible NIA Projects as set out in Appendix 1</p>

	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"> <li>(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</li> </ul>



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.

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), paragraph 4C.27.

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);

**Participating Interest** has the meaning given in section 421A of the Financial Services and Markets Act 2000.

**Participating Owner** for the purposes of the definition of “Associate”, a person is subject to a Participating Interest by another person (a “Participating Owner”) if:

- (a) that other person holds a Participating Interest in the person; or
- (b) the person is subject to a Participating Interest by a person who is himself subject to a Participating Interest by that other person.

**PCFM Variable Value** means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and

whose revision does not constitute a modification to the ET1 Price Control Financial Model for the purposes of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

**PCFM Variable Values Table** means the table on the Input sheet of the ET1 Price Control Financial Model for the licensee which has:

- (a) column headings for:
  - (i) PCFM Variable Value names;
  - (ii) Special Condition numbers;
  - (iii) unit designations; and
  - (iv) Relevant Years;
- (b) a row relating to each PCFM Variable Value specified in this licence; and
- (c) a range of blue coloured cells containing the PCFM Variable Values specified in this licence.

**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.

Period p means the period 1 April 2011 to 31 March 2013.

Power Station shall have the same meaning as is given to that term in the Grid Code.

**Pre-construction Engineering (PE)** for the purposes of Special Condition 3L (Pre-construction Engineering outputs for prospective 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.~~

~~Proven SO Innovation~~

~~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.~~

Registered Capacity

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

Regulatory Asset Value (RAV)	has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.
Relevant Other Competitive Business	<p>means the business of:</p> <p>(a) participating in, or intending to participate in, a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted;</p> <p>(b) an Offshore Transmission Owner;</p> <p>(c) undertaking carbon capture and storage activities; or</p> <p>(d) owning and/or operating an entity participating in, or intending to participate in, activities which require a licence under section 6(1)(e) of the Electricity Act 1989.</p>

<p><b>Relevant System Planning Activities</b></p>	<p>for the purposes of Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) means activities undertaken by the licensee pursuant to:</p> <p>(a) standard condition C27 (The Network Options Assessment process and reporting requirements);</p> <p>(b) paragraph 4(c) of standard condition C6 (Connection charging methodology);</p> <p>(c) paragraphs 3(c), where relevant to Developer Associated Offshore Wider Works, 5A and 9A of standard condition C8 (Requirement to offer terms);</p>
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(d) standard condition C25 (Provision of information and assistance to the Authority in relation to applications requiring the appointment of an offshore transmission owner), where relevant to Developer-Associated Offshore Wider Works; and

(e) paragraphs 1(bb), 3(e) and 13(aa) of standard condition C11 (Production of information about the national electricity transmission system);

Relevant System Planning Information

for the purposes of Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) means all Information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee's employees, agents, contractors and advisors solely by virtue of the performance of Relevant System Planning Activities by the licensee, but excluding all Information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence.

"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-

means for the purposes of Parts B and C of Special Condition 6B (Supplementary



construction Works 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 for the purposes of Special Condition 6F (Baseline Generation Connections Outputs and Generation Connections volume driver) is calculated as the sum of the maximum of all individual generation entry capacities in any year during the period from 1 April 2013 up to and including Relevant Year t-2 minus the sum of the maximum of all individual generation entry capacities in any year during the period from 1 April 2012 up to and

including Relevant Year t-3.

For generation connected to the England and Wales transmission system directly, 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.

For generation connected to the England and Wales transmission system by an offshore transmission system (and not via a distribution system or the Scottish transmission system), 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.

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.

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

<p>Relevant <b>SO</b> Special Conditions</p>	<p><b>stations.</b></p> <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>
<p><b>Relevant TO Special Conditions</b></p>	<p><b>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.</b></p>
<p>Relevant User Agreement to Vary</p>	<p>means a bilateral contract between the licensee and user for a modification to an existing grid connection as defined in the CUSC.</p>
<p><b>Relevant User Connection Agreement</b></p>	<p><b>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 and user for a new grid supply point as defined in the CUSC.</b></p>
<p>Relevant Year</p>	<p>a year beginning on 1 April to which the provisions of this licence apply.</p>
<p><b>Relevant Year d</b></p>	<p><b>for the purposes of Special Condition 6K (Allowed Expenditure for meeting planning</b></p>

Relevant Year t

~~requirements and volume driver) means the year in which the circuit is forecast to achieve, or actually achieves stage 2 commissioning.~~

for the purposes of the Special Conditions in Chapters 5, ~~6,~~ and 7, means the Relevant Year in which the values for the terms ~~s MOD and~~ SOMOD, calculated through a particular Annual Iteration Process, ~~are is~~ 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 on External Costs) to ~~4JK (SO-TO mechanism Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs)~~ 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 Project Revenues	has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).
Returned Royalty Income	has the meaning given to that term in Part C of Special Condition 3I (The Network

Innovation Competition).

RIIO 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.

Shared Services

for the purposes of Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its **Relevant System Operator Functions-Planning Activities**) means shared corporate services **(which shall not include regulatory services)** as specified in the compliance statement **established under Part D of Special Condition 20.**

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  $\text{IncPayEX}_t$  in Special Condition **AA5A4C (Balancing Services Activity Revenue Restriction on External Costs)** of this licence in the form it was in on 31 March 2013.

SO Methodologies

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<sub>m</sub>” in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).

SO Models

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).

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.

SO Roll-out for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) 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).
System Operator Functions	for the purposes of Special Condition 2O

(Business separation requirements and compliance obligations, and conduct of the System Operator in performing its **Relevant System Operator Functions Planning Activities**) means the activities of the licensee pursuant to the obligations under Section C of this licence, for which there are no equivalent obligations under Section D or Section E, of the standard licence conditions contained in an electricity transmission licence.

**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 any financial 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

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:

(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)(a)  $t=n+1$  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

Totex Incentive Strength Rate (SO)	<p><b>Special Condition 6H (Arrangements for the recovery of uncertain costs).</b></p> <p>means the incentive rate for the licensee set out in Appendix 1 to Special Condition 7D (Arrangements for the recovery of SO uncertain costs).</p>
<b>Transmission Area</b>	<p><b>has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).</b></p>
Transmission Business	<p>has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).</p>
Transmission Business Activities	<p><b>has the meaning given to this term in Standard Condition B1(Regulatory Accounts)means the following activities of the licensee, in each case to the extent applicable:</b></p> <p><b>(a) the Transmission Owner Activity; and</b></p> <p><b>(b) the System Operator Activity,</b></p> <p><b>where System Operator Activity means the Balancing Services Activity, as that term is defined in standard condition C1 (Interpretation of Section C).</b></p>
Transmission Constraints	<p>has the meaning given in Standard Condition C16 (Procurement and use of balancing services).</p>
<b>Transmission Investment Incentives Projects</b>	<p><b>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</b></p>

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.

Warming

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.

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)).

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.

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Special Condition 1B. ~~Transmission Area~~ Not Used

**Drafting Change:** Special Condition 1B will not be used as NGENSO will not have a transmission area.

~~1. The transmission area comprises:~~

~~(a) England and Wales; and~~

~~(b) the subsea corridor within the territorial sea adjacent to Great Britain or within any Renewable Energy Zone that the part of the Western HVDC Link (as defined in paragraph 2 below) owned by the licensee passes through.~~

~~2. For the purpose of this condition:~~

~~“the Western HVDC Link” (i) means the high voltage electric lines and electrical plant which comprise the following components:~~

~~(a) a High Voltage Direct Current (HVDC) cable, the sole purpose of which is to transmit electricity between the transmission area of SP Transmission Limited (SPTL) and that part of the licensee’s transmission area specified in paragraph 1(a) above via an onshore and subsea corridor the route of which extends, in part, outwith Great Britain, the territorial sea adjacent to Great Britain and~~

any Renewable Energy Zone;

~~(a) converter stations at either end of the HVDC cable described in (a) above to facilitate the conversion of power from Direct Current (DC) in the HVDC cable to Alternating Current (AC) in the national electricity transmission system; and~~

~~(c) cables to connect each converter station described in (b) above to an appropriate substation in each of the licensee's transmission area and SPTL's transmission area respectively.~~

~~(ii) does not transmit electricity for the purposes of offshore transmission as defined in the Electricity Act 1989 as a whole (as amended from time to time).~~

Special Condition 1C. Amended standard conditions

1. Standard condition A1 (Definitions and interpretation) shall be amended:

**Drafting Change:** Definition of “remote transmission assets” has been removed as this will only apply to NGET post-separation.

~~(a) — by the addition of the following text between the definitions of “relinquishment of operational control” and “Retail Price Index”:~~

~~**“remote transmission assets”** means any electric lines, electrical plant or meters in England and Wales owned by the licensee which:~~

~~are embedded in a distribution system of an authorised electricity operator within the transmission area of the licensee and are not directly connected by lines or plant owned by the licensee to a sub-station owned by the licensee and~~

~~are, by agreement between the licensee and such authorised electricity operator, operated under the direction and control of such authorised electricity operator.~~

(a) by the addition of the following text at the correct place alphabetically:

**“EMR functions”** has the same meaning as in Chapter 5 of Part 2 of the Energy Act 2013.

2. Standard condition A1 (Definitions and interpretation) shall be amended as follows:

**Drafting Change:** Amendments made to reflect the deletion of “remote transmission assets” as this will only apply to NGET post-separation.

~~(a)~~ by the addition of the following text after “and includes” in the definition of “distribution system”: “remote transmission assets (owned by the licensee within England and Wales) operated by such distributor and any”;

~~(b)~~ by the addition of the following text at the end of the definitions of “GB transmission system” and “national electricity transmission system”: “but shall not include any remote transmission assets”;

~~(c)~~(a) by the omission of the full stop and the addition of the following text at the end of subsection (c) in the definition of “permitted purpose”

“; and (d) the EMR functions.”;

**Drafting Change:** Amendments made to exclude NGET’s transmission business activities (conducted under the NGET transmission licence) from the scope of the definition of NGESO’s “transmission business”.

(a) in the definition of “transmission business”:

(aa) not used;

(bb) not used;

(cc) the words “or commercial management” shall be inserted after “maintenance”;

~~the words “the transmission owner activity,” shall be inserted before “the balancing services activity”;~~ and

(dd) ~~not used~~ the word “or” shall be deleted at the end of paragraph

(i);

(ee) the word “;or” shall be inserted at the end of paragraph (ii); and

(ff) a new paragraph (iii) shall be inserted as follows:

“any business of National Grid Electricity Transmission plc (Company Number 2366977) and its affiliates or related undertakings that is participating in the transmission of electricity pursuant to a transmission licence held by National Grid Electricity Transmission plc”.

3. Standard Condition B1 (Regulatory Accounts) shall be amended at paragraph (a) by the insertion of “(which, for the purposes of this condition and Standard Conditions B5 and B6 only, includes the EMR functions)” after “business”.
4. Standard Condition B5 (Prohibition of Cross Subsidies) shall be amended by the insertion of “(which, for the purposes of this condition and Standard Condition B1 and B6 only, includes the EMR functions)” after “business” and “shall”.
5. Standard Condition B6 (Restriction on Activity and Financial Ring Fencing) shall be amended at paragraph 1 by the insertion of “(which, for the purposes of this condition and Standard Conditions B1 and B5 only, includes the EMR functions)” after “transmission business”.
6. Standard condition B7 (Availability of Resources) shall be amended as follows:
  - (a) at paragraph 1, by the deletion of the full stop at the end of paragraph (b) and the addition of the following text after “electricity transmission”:  
“;and (c) to properly and efficiently carry on the EMR functions and to comply in all respects with its obligations under EMR legislation”.
  - (b) in the following places to insert “and EMR functions”:
    - a. in paragraph 2(a) between “business” and “for”;
    - b. in paragraph 2(b):
      - (aa). between “business” and “for”;
      - (bb). between “business” and “[followed”;

c. in paragraph 2(c) between “business” and “for”;

d. in paragraph 4(a) between “business” and “for”;

e. in paragraph 4(b):

(aa). between “business” and “for”;

(bb). between “business” and “[followed”;

f. in paragraph 4(c) between “business” and “for”.

7. Standard condition B8 (Undertaking from ultimate controller) shall be amended:

(a) at paragraph 1 by inserting “EMR legislation,” between “under” and “the”;

(b) by the addition of the following text as a new paragraph 4:

“The licensee shall not be in breach of paragraph 1 if within 7 days of this paragraph coming into force, or as otherwise directed by the Authority, the licensee procures an updated version of the undertaking required by paragraph 1, that includes reference to its obligations under or by virtue of EMR legislation”

**Drafting Change:** Under the current licence drafting, there is a double obligation as a result of Standard Conditions C2 and D6 whereby both NGESO and NGET are required to monitor NGET. To resolve this issue, we are minded to amend the drafting in C2 for the ESO.

8. Standard condition B22 (Requirement for sufficiently independent directors) shall be amended at paragraph 1 by inserting the word “three” in place of the word “two” ahead of “non-executive directors”.



Standard condition C1 (Interpretation of Section C) shall be amended by the addition of the following text between the definition of "transmission network services" and the definition of "use of system":

"transmission owner activity"

means

- (i) the activity of the licensee or any affiliate or related undertaking relating to the medium to long term planning, development, construction, maintenance and commercial management of the licensee's transmission system or the national electricity transmission system which is remunerated under Special Condition 3A (Restriction of Transmission Network Revenue), and
- (ii) excluded services.

9. Standard Condition C2 (Prohibited activities) shall be amended at paragraph 2 by inserting the words "that is not subject to Condition D6" ahead of "shall not, on its own account".

10. Standard Condition C2 (Prohibited activities) shall be amended by the addition of the following text as paragraph 4:

"For the avoidance of doubt, paragraph 2 shall not prohibit or restrict the ability of the licensee to carry out its EMR functions."

## Chapter 2: General Obligations

**Drafting Change:** Special Condition 2A will not apply to NGESO as the activities restrictions are linked to the transmission area which is a TO concept. The ESO will not have a transmission area. ~~Instead, we are considering whether to create a new special condition which places restrictions on the activities that the ESO undertakes. We welcome stakeholder views as to whether this is necessary.~~

### ~~Question for Stakeholders:~~

~~Do you think a new special licence condition is necessary to place restrictions on the activities that NGESO can undertake? If so, what activities should be restricted?~~

### **Special Condition 2A. ~~Activities restrictions~~ Not Used**

- ~~1. Subject to the provisions of paragraph 2 below (which are made in accordance with section 7(2A)(a) of the Act), the licensee is authorised by paragraph 1 of Part I (Terms of the Licence) of this licence to participate in the transmission of electricity for the purpose of giving a supply to any premises or enabling a supply to be so given.~~
- ~~2. The licensee shall not, outside its transmission area, obtain or obtain access to any assets comprising part of the national electricity transmission system which are intended for the purpose of conveying electricity except:
  - ~~(a) from another transmission licensee; or~~
  - ~~(b) where the Authority has issued a direction to the licensee pursuant to paragraph 2 of standard condition B18 (Offshore Transmission Owner of~~~~

~~Last Resort) insofar as it relates to the transmission system specified in that direction.~~

Special Condition 2B. ~~Restriction on the use of certain information~~ Not Used

**Drafting Change:** Special Condition 2B (Restriction on Use of Information) will not apply to NGENSO. Instead, we will incorporate restrictions on the use of information into our amended version of Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions Relevant Transmission Business Activities).

- ~~1. This condition applies where the licensee has received an application for connection pursuant to paragraph 1(b) of standard condition C8 (Requirement to offer terms) from any person (the "applicant"), in relation to a possible connection to the National Electricity Transmission System in an area which is outside the licensee's Transmission Area.~~
- ~~2. Where this condition applies, any information which the licensee receives from another transmission licensee relating to the design or construction of that possible connection or relating to financial matters associated with that 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.~~
- ~~3. Subject to paragraph 4, the licensee shall ensure that any confidential information is not disclosed to or used by those of its employees, agents, advisers, consultants or contractors who are responsible for, or are otherwise involved in any way in, the preparation of any alternative offer for or the making of any alternative offer to the applicant. The licensee shall further ensure that such of its employees, agents, advisers, consultants or contractors who are preparing an offer for the applicant dealing with such confidential information shall not have access to any information derived from or relating to any alternative offer or alternative offers being prepared for or which have been made to the applicant in relation to a possible connection or possible~~

~~connections to any part of the National Electricity Transmission System which falls within the licensee's Transmission Area.~~

~~4. Paragraph 3 shall not (or no longer) apply if and to the extent that:~~

~~(a) the employees, agents, advisers, consultants or contractors who are responsible for, or are otherwise involved in, the preparation of an alternative offer are required to have access to the confidential information (or any part thereof) by virtue of any requirement of law;~~

~~(b) the employees, agents, advisers, consultants or contractors who are dealing with the confidential information (or any part thereof) are required to have access to any alternative offer (or any part thereof) by virtue of any requirement of law;~~

~~(c) the relevant Transmission Licensee has notified (or otherwise agreed with) the licensee that the information referred to in paragraph 2 (or any part thereof) need not be treated as confidential for the purposes of this condition or Special Condition 2H (Appointment of a compliance officer);~~

~~(d) any employees, agents, advisers, consultants or contractors are required to have access to both the confidential information (or any part thereof) and any alternative offer solely in connection with the financial sanctioning or final approval of an offer to be made to the applicant in accordance with standard condition C8 (Requirement to offer terms), provided that where following such access the licensee (or any employee, agent, adviser, consultant or contractor of the licensee on its behalf) amends any aspect of any offer to the applicant, such modification shall be notified to the Compliance Officer appointed in accordance with Special Condition 2H (Appointment of a compliance officer); or~~

~~(e) any employees, agents, advisers, consultants or contractors are required to have access to both the confidential information (or any part thereof) and any alternative offer (or part thereof) solely in connection with assessing Transmission System outage requirements and developing~~

~~outage plans to facilitate connection to the National Electricity Transmission System,~~

~~provided that effective arrangements are maintained in place at all times for ensuring that no further disclosure or use of any information supplied or obtained pursuant to this paragraph is made.~~

~~5. This condition applies without prejudice to any other confidentiality arrangements that may apply to the information referred to in paragraph 2.~~

~~6. In this condition~~

~~**“alternative offer”**~~

~~an offer being prepared or made pursuant to paragraph 1(b) of standard condition C8 (Requirement to offer terms) shall be an alternative offer where:~~

~~(a) it relates to a connection to the National Electricity Transmission System at a location which is within the licensee’s Transmission Area; and~~

~~(b) the applicant (whether by one or more applications):~~

~~(i) has applied to connect to the National Electricity Transmission System at more than one location, at least one of which is located outside the licensee’s Transmission Area; or~~

~~(i) is willing to consider a connection to the National Electricity Transmission System at more than one location, at least one of which locations is outside the licensee’s Transmission Area; and~~

~~(c) the licensee knows or it is reasonable for the licensee to assume that the applicant does not intend to connect to the National Electricity Transmission System at all the locations at which the applicant has requested an offer for connection and that it intends to choose to connect at one or more locations on the basis of the offers it receives,~~

~~but shall exclude any offer being prepared for or which has been made to the applicant which the licensee knows or it is reasonable for the licensee to assume the applicant does not consider is an alternative to any other offer which is being prepared for or which has been made to the applicant.~~

**"applicant"** has the meaning given to that term in paragraph 1.

**"confidential information"** has the meaning given to that term in paragraph 2.

## Special Condition 2C.Prohibited Activities and Conduct of the Transmission Business

### Prohibited Activities

1. Except with the written consent of the Authority, the licensee shall not and shall procure that any subsidiary of the licensee shall not, on its own account (or that of the licensee or of any subsidiary of the licensee as the case may be), hold, or seek to hold, a transmission licence that has [Section D \(Transmission Owner Standard Conditions\)](#) or Section E (Offshore Transmission Owner Standard Conditions) in effect.

### Conduct of the Transmission Business

2. The licensee shall conduct its transmission business in the manner best calculated to secure that, in meeting its obligations under this licence:
  - (a) the licensee;
  - (b) any affiliate or related undertaking of the licensee including, for the avoidance of doubt:
    - (i) any affiliate or related undertaking that intends to participate in a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted; or
    - (ii) any affiliate or related undertaking participating in a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted;that is a subsidiary of, or is controlled by an ultimate controller of, the licensee;
  - (c) any user of the national electricity transmission system; or
  - (d) any other transmission licensee;

obtains no unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its transmission business.



Special Condition 2D. Not used

Special Condition 2E. Not used

Special Condition 2F. Role in respect of the National Electricity Transmission System  
Operator area located in offshore waters

**Part A: Purpose**

1. The purpose of this condition is to ensure that the licensee prepares conduct and performance reports to facilitate the development of an efficient, co-ordinated and economical system of electricity transmission.

**Part B: Not used**

**Part C: Not used**

**Part D: Not used**

**Part E: Offshore transmission report**

21. The licensee shall until 31 March 2021, (or such earlier date as the Authority may direct) periodically deliver a report (the “offshore transmission report”) to the Authority containing information relating to the licensee’s activities undertaken pursuant to this licence in respect of that part of the National Electricity Transmission System located in offshore waters in accordance with any direction issued under paragraph 22.
22. The Authority shall, following consultation with the licensee, issue a direction to the licensee as to the form and content of the offshore transmission report and the frequency with which the licensee shall deliver the offshore transmission report to the Authority (being not more frequently than one report in each month).
23. The Authority may review and, following consultation with the licensee, vary any direction issued by the Authority pursuant to paragraph 22 by issuing a further direction to the licensee under paragraph 22 as to the form and content of the offshore transmission report and the frequency with which the licensee shall deliver the offshore transmission report to the Authority (being not more frequent than one report each month).

24. The licensee may request a review of any direction issued by the Authority pursuant to paragraph 22 or a variation to a direction issued by the Authority pursuant to paragraph 22. If, having considered the representations made by the licensee in such a request, the Authority considers that it is appropriate that the form and content of the offshore transmission report and/or the frequency with which the licensee shall deliver the offshore transmission report to the Authority should be varied, the Authority may issue a further direction under paragraph 22 to the licensee varying the form and content of the offshore transmission report and/or the frequency with which the licensee shall be required to deliver the offshore transmission report to the Authority. The Authority may not direct that the licensee shall deliver the offshore transmission report to it more frequently than once in each month.

25. The offshore transmission report shall be designed to facilitate monitoring and assessment of the conduct and performance of the licensee in relation to:

- (a) the licensee's compliance with this licence in respect of that part of the National Electricity Transmission System operator area located in offshore waters;
- (b) the licensee's performance in respect of that part of the National Electricity Transmission System operator area located in offshore waters in developing and facilitating the development of an efficient, co-ordinated and economical system of electricity transmission; and
- (c) details of any complaints made by interested parties to the licensee in respect of its performance under this licence in respect of that part of the National Electricity Transmission System operator area located in offshore waters and of the actions taken by the licensee to resolve any complaints raised.

26. The licensee shall until 31 March 2021 (or such earlier date as the Authority may direct), provide to the Authority, by 1 December in each year, a certificate signed by the Single Appointed Director (appointed pursuant to Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions Relevant

| ~~System Planning Activities~~) certifying that the information in the offshore transmission reports delivered to the Authority in the previous twelve months is fair and accurate.

27. In this condition:

**“interested parties”** includes authorised electricity operators, potential offshore transmission owners, the Crown Estate, Government bodies and institutions with an interest in the development of the National Electricity Transmission System in respect of the parts of the national electricity operator area located in offshore waters.

Special Condition 2G. Prohibition on engaging in preferential or discriminatory behaviour

1. The licensee shall not, in meeting its obligations under this licence, unduly discriminate as between or unduly prefer any other transmission licensee or transmission licensees or unduly prefer itself over any other transmission licensee or transmission licensees.

**Drafting Change:** Paragraph 2 has been removed as the SO will not have a transmission area in which it will undertake activities.

~~When determining whether to use or refrain from using services provided by another transmission licensee pursuant to that other transmission licensee's transmission licence, the licensee shall apply the same or equivalent factors (and shall, in applying such factors, take into account any information available to it) that it applies when considering whether to undertake (or to refrain from undertaking) equivalent activities in its transmission area.~~

2. On notification by the Authority, the licensee shall keep and maintain such records concerning its compliance with this condition as are in the opinion of the Authority sufficient to enable the Authority to assess whether the licensee is complying with this condition and as are specified in any such notification, and the licensee shall furnish to the Authority such records (or such of these as the Authority may require) in such manner and at such times as the Authority may require.

Special Condition 2H. ~~Appointment of a Compliance Officer~~ Not Used

**Drafting Change:** Special Condition 2H (Appointment of a compliance officer) will not apply to NGESO. Instead, we will incorporate requirements around the need to appoint a compliance officer into our amended version of Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant Transmission Business Activities).

- ~~1. The licensee shall prepare a statement in a form approved by the Authority describing the means by which the licensee shall ensure that Special Condition 2B (Restriction on use of certain information) is complied with.~~
- ~~2. The licensee may periodically revise the description set out in and, with the approval of the Authority, alter the form of the statement prepared in accordance with paragraph 1 and shall, at least once every year during which this licence is in force, review such statement in order that the description set out therein shall continue to be accurate in all material respects.~~
- ~~3. The licensee shall send a copy of the statement prepared in accordance with paragraph 1, and of each revision of such statement in accordance with paragraph 2, to the Authority and shall publish a copy of such statement and each such revision in such a way as to ensure that such statement and each such revision is likely to be brought to the attention of any person who may be affected by it or by each of them.~~
- ~~4. The licensee shall, following consultation with the Authority, appoint a competent person (who shall be known as the "Compliance Officer") for the purpose of facilitating compliance by the licensee with this condition and with Special Condition 2B (Restriction on use of certain information).~~
- ~~5. The licensee shall at all times engage the services of the Compliance Officer for the performance of such duties and tasks as the licensee considers it appropriate to assign to him for the purposes specified at paragraph 4, which duties and tasks shall include those set out at paragraph 8.~~
- ~~6. The licensee shall procure that the Compliance Officer:~~

~~(a) is provided with such staff, premises, equipment, facilities and other resources; and~~

~~(b) has such access to its premises, systems, information and documentation as, in each case, he might reasonably expect to require for the fulfilment of the duties and tasks assigned to him.~~

~~7. The licensee shall make available to the Compliance Officer a copy of any complaint or representation received by it from any person in relation to any of the means adopted by the licensee in accordance with the statement referred to at paragraph 1.~~

~~8. The duties and tasks assigned to the Compliance Officer shall include:~~

~~(a) providing relevant advice and information to the licensee for the purpose of ensuring its compliance with the relevant duties;~~

~~(b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee in accordance with the statement referred to at paragraph 1;~~

~~(c) investigating any complaint or representation made available to him in accordance with paragraph 7;~~

~~(d) investigating any notification made to it under paragraph 4(d) of Special Condition 2B (Restriction on the use of certain information) to ensure compliance with Special Condition 2G (Prohibition on engaging in preferential or discriminatory behaviour);~~

~~(e) recommending and advising upon the remedial action which any investigation under paragraph (c) or (d) has demonstrated to be necessary or desirable;~~

~~(f) providing relevant advice and information to the licensee for the purpose of ensuring its effective implementation of:~~



~~(i) the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1; and~~

~~(ii) any remedial action recommended in accordance with subparagraph (e); and~~

~~(g) reporting annually to the directors of the licensee in respect of the year ending 31 December 2005 and of each subsequent year as to his activities during the period covered by the report, including the fulfilment of the other duties and tasks assigned to him by the licensee.~~

~~9. As soon as is reasonably practicable following each annual report of the Compliance Officer, the licensee shall produce a report:~~

~~(a) as to its compliance during the relevant year with the relevant duties; and~~

~~(b) as to its implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1.~~

~~10. The report produced in accordance with paragraph 9 shall in particular:~~

~~(a) detail the activities of the Compliance Officer during the relevant year;~~

~~(b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1; and~~

~~(c) set out the details of any investigations conducted by the Compliance Officer, including:~~

~~(i) the number, type and source of the notifications, complaints or representations on which such investigations were based;~~

~~(ii) the outcome of such investigations; and~~

~~(iii) any remedial action taken by the licensee following such investigations.~~

~~11. The licensee shall submit to the Authority a copy of the report produced in accordance with paragraph 9, and shall give or send a copy of the report to any person who requests such a copy.~~

~~12. In this condition:~~

~~**"confidential information"** shall for the purposes of this condition have the same meaning as in Special Condition 2B (Restriction on the use of certain information).~~

~~**"relevant duties"** means the obligations set out in Special Condition 2B (Restriction on the use of certain information).~~

Special Condition 21. ~~Independence of and appointment of Chief Executive Officer of the Licensee~~Not used

**Drafting Change:** We are minded to include ~~a new version of Special Condition 21 (Independence of and appointment of Chief Executive Officer of the Licensee) for NGESO. This will outline~~ the requirements for the licensee to maintain the full managerial and operational independence of the System Operator Business from each other business of the licensee and of its affiliates and undertakings in our amended version of Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant Transmission Business Activities). ~~It also requires that the licensee appoints a Chief Executive Officer to be responsible for the conduct of the System Operator Business.~~

**Questions for stakeholders:**

~~Do you agree that a new special licence condition to ensure the independence of an appointment of Chief Executive Officer of the Licensee is required for NGESO?~~

## Special Condition 2J. Network Access Policy

**Drafting Change:** Special Condition 2J applies predominantly to NGET TO. The ESO should not have an obligation to create a NAP. However the licence should reflect the ESO's existing obligation to facilitate and contribute towards all TOs' development of NAP and to incorporate the outcome of NAP into ESO planning.

### Introduction

- 2J.1 The purpose of this condition is to set out the requirements upon the licensee to ~~publish, no later than 30 days after 1 April 2013, and from then on~~ facilitate the development of and to act consistently with ~~the~~ the respective Transmission Owners' Network Access Policy ("the NAP") designed to facilitate efficient performance and effective liaison between the System Operator and Transmission Owners in relation to the planning, management, and operation of the National Electricity Transmission System (NETS) for the benefit of consumers.
- 2J.2 For the avoidance of doubt, nothing in this condition replaces, overrides, or limits:
- (a) any statutory duty imposed on the licensee;
  - (b) any other obligation of the licensee under licence or code, particularly in relation to the licensee's compliance with Standard Condition B12 (System Operator – Transmission Owner Code) and Standard Condition C17 (Transmission system security standard and quality of service); and
  - (c) the System Operator - Transmission Owner Code ("the STC").

### Part A: Licensee's obligations in relation to the NAP

~~2J.3—The licensee must, no later than 30 days after 1 April 2013, submit a NAP for the Authority's approval. Following approval for the Price Control Period the licensee must have in place a NAP that:~~

~~(a) — has been approved by the Authority following consultation with electricity Transmission Licensees and such other interested parties as the Authority considers appropriate; and~~

~~(b) — conforms to the requirements set out in Part B of this condition.~~

~~2J.4—The licensee must maintain the NAP approved under paragraph 2J.3(a) in accordance with Part C of this condition.~~

~~2J.5—Approval by the Authority under paragraph 2J.3(a) may be subject to such conditions requiring further action to be undertaken by the licensee in relation to the NAP as the Authority considers appropriate.~~

2J.3 The licensee must incorporate the respective Transmission Owners' NAP into its planning and operations within its licensed activities. It must act consistently with the NAPs, subject to the need to ensure the safe and secure operation of the NETS as a whole or any part of it.

~~2J.6~~2J.4 ~~The licensee must take all reasonable endeavours to assist Transmission Owners in meeting their obligations for meeting the essential requirements of the NAP and amending the NAP.~~

#### **Part B: Essential requirements of the NAP**

~~2J.7—The NAP that is in place under this condition must include and/or make provision for:~~

~~(a) details of the actions that the licensee's Transmission Owner Activity will take to coordinate with the System Operator's balancing services activity and/or other Transmission Owners as appropriate to ensure that planned network outage arrangements are agreed with due consideration of the long term outcomes for consumers and network users;~~

~~(b) — details of the actions that the licensee will take for the purposes of responding to and managing unplanned network outages with a view to~~

minimising their contribution to network constraints subject to the need to ensure the safe and secure operation of the NETS as a whole or any part of it;

(c) — details of the types of circumstances that are likely to require an alternative approach to that set out in relation to paragraphs 2J.7(a) and (b); and

(d) — a description of the licensee's communication and coordination strategy for interacting with the System Operator's balancing services activity in respect of matters relating to the NAP.

### **Part C: Procedure for amending the NAP**

2J.8 — The licensee must from time to time and at least once in every two years while this licence is in force, review and make such amendments as may be necessary to the NAP in order to ensure that the information contained in it continues to be accurate and consistent with this condition.

2J.9 — Where the licensee proposes to amend the NAP, it must provide a full statement to the Authority of the proposed amendments and provide a copy of that statement to the System Operator's balancing services activity and other Transmission Licensees.

2J.10 — The statement to which paragraph 2J.9 of this condition refers, must include an explanation of the reasons for the proposed amendment, together with such supporting evidence as the licensee considers will assist the Authority in its consideration of the proposed amendment.

2J.11 — The Authority's consideration of the proposed amendment will include consideration of any other submission.

2J.12 — The licensee must supply all relevant information relating to the NAP within such period of time as the Authority may reasonably request for the purpose of enabling it to consider the licensee's proposed amendment to the NAP.

2J.13 — The Authority (following consultation with the licensee and such other interested parties as it considers appropriate) may:

(a) — approve the proposed amendment, subject, where necessary, to such conditions requiring further action to be undertaken by the licensee in relation to the NAP as the Authority considers appropriate; or

(b) — reject the proposed amendment (and, where appropriate, give recommendations as to alternative amendments which it considers ought to be made).

2J.14 Where approved by the Authority, the amended NAP both supersedes and revokes (with effect from such date as may be specified in the NAP) any previous version of the NAP in place under this condition.

2J.15 In the event that the Authority approves an amendment to the NAP under the procedure set out in Part C, the licensee must ensure that the NAP made available under paragraph 2J.16 is updated within 5 working days of the Authority granting approval under paragraph 2J.13(a).

#### **Part D: Availability of the NAP**

2J.16 The licensee must ensure that the NAP in place under this condition:

(a) — is published on, and readily accessible from its website; and

(b) — is otherwise available to any person who requests it upon payment of an amount (if any) that does not exceed the reasonable costs of making and supplying that copy.

## Special Condition 2K. Electricity Transmission Losses reporting Not Used

**Drafting Change:** 2K (Electricity Transmission Losses reporting) will not be used in NGESO licence as it is a TO only obligation.

### Introduction

~~2K.1—The purpose of this condition is to set out the reporting requirements the licensee must undertake to inform stakeholders about the steps being taken to minimise the level of Transmission Losses on the licensee’s Transmission System.~~

### Part A: Reporting requirements in relation to Transmission Losses

~~2K.2—On or before 1 December 2013, the licensee must publish a strategy for the Price Control Period setting out how the licensee intends to minimise the level of Transmission Losses on the licensee’s Transmission System in respect of the licensee’s duty under section 9(2) of the Act to develop and maintain an efficient, co-ordinated and economical system of electricity transmission.~~

~~2K.3—The licensee’s strategy should include, but is not limited to, the following:~~

- ~~(b)—a description of the methodology used by the licensee to take Transmission Losses into account when planning load related reinforcements to the licensee’s Transmission System;~~
- ~~(c)—a description of the licensee’s methodology to take Transmission Losses into account when the licensee is planning non-load related asset replacement programmes on the licensee’s Transmission System;~~
- ~~(d)—a description of how the licensee determines the optimal specifications in relation to Transmission Losses arising from the operation of new equipment in its asset procurement processes;~~
- ~~(e)—a summary of key developments to the licensee’s Transmission System and estimates of the impacts those developments will have on Transmission Losses on the licensee’s Transmission System;~~



- ~~(f) — a summary of the licensee’s asset replacement programmes and estimates of the impacts those programmes will have on Transmission Losses on the licensee’s Transmission System; and~~
- ~~(g) — a description of the potential application of new and alternative technologies to the licensee’s Transmission System during the Price Control Period and the impact these technologies may have in relation to Transmission Losses.~~

~~2K.4 — On or before 31 October 2014 and for each subsequent year, unless the Authority directs otherwise, the licensee must publish an annual Transmission Losses report for the previous Relevant Year prepared in accordance with the provisions of this condition to be published on, and be readily accessible from its website, and to include in reasonable detail:~~

- ~~(h) — the level of Transmission Losses from the licensee’s Transmission System, measured as the difference between the units of electricity metered on entry to the licensee’s Transmission System and the units of electricity metered on leaving that system;~~
- ~~(i) — a progress report on the implementation of the licensee’s strategy under paragraph 2K.2, including the licensee’s estimate of the contribution to minimise Transmission Losses on the licensee’s Transmission System that has occurred as a result; and~~
- ~~(j) — any changes or revisions the licensee has made to the strategy in accordance with paragraph 2K.2 of this condition.~~

~~The strategy under paragraph 2K.2 of this condition and the report under paragraph 2K.4 of this condition must contain or be accompanied by a description of any calculations the licensee has used to estimate Transmission Losses on the licensee’s Transmission System.~~

## Special Condition 2L. Methodology for Network Output Measures Not Used

**Drafting Change:** 2L (Methodology for Network Output Measures) will not be used in NGENSO licence as it is a TO only obligation.

### Introduction

~~2L.1—The purpose of this condition is to ensure that the licensee has in place a Methodology for Network Output Measures that achieves the objectives set out in Part B of this condition.~~

### ~~Part A: Licensee’s general obligations under this condition~~

~~2L.2—The licensee must at all times have in place and maintain a Methodology for Network Output Measures (“the NOMs Methodology”) that:~~

- ~~(k) — facilitates the achievement of the NOMs Methodology Objectives set out in Part B below;~~
- ~~(l) — enables the objective evaluation of the Network Output Measures set out in Part C below;~~
- ~~(m) — is implemented by the licensee in accordance with the provisions of Part D below; and~~
- ~~(n) — may be modified from time to time in accordance with the provisions of Part E below.~~

### ~~Part B: The NOMs Methodology Objectives~~

~~2L.3—The NOMs Methodology Objectives as referred to in paragraph 2L.2(a) of this condition are as follows:~~

- ~~(o) — the monitoring of the licensee’s performance in relation to the development, maintenance and operation of an efficient, co-ordinated and economical system of electricity transmission;~~
- ~~(p) — the assessment of historical and forecast network expenditure on the licensee’s Transmission System;~~
- ~~(q) — the comparative analysis of performance over time between:
  - ~~(i) — geographic areas of, and Network Assets within, the licensee’s Transmission System;~~~~

- ~~(ii) — the licensee’s Transmission System and other Transmission Systems forming part of the National Electricity Transmission System;~~
- ~~(iii) — the National Electricity Transmission System and Transmission Systems outside Great Britain; and~~
- ~~(iv) — the National Electricity Transmission System and Distribution Systems within Great Britain;~~
- ~~(r) — the communication of relevant information about the licensee’s Transmission System to the Authority and other interested parties in an accessible and transparent manner; and~~
- ~~(s) — the assessment of customer satisfaction derived from the services provided by the licensee as part of its Transmission Business.~~

**Part C: The NOMs methodology**

~~2L.4 — The NOMs Methodology must be designed to enable the evaluation of:~~

- ~~(t) — the network assets condition measure, which relates to the current condition of the Network Assets, the reliability of the Network Assets, and the predicted rate of deterioration in the condition of the Network Assets, which is relevant to assessing the present and future ability of the Network Assets to perform their function;~~
- ~~(u) — the network risk measure, which relates to the overall level of risk to the reliability of the licensee’s Transmission System that results from the condition of the Network Assets and the interdependence between the Network Assets;~~
- ~~(v) — the network performance measure, which relates to those aspects of the technical performance of the licensee’s Transmission System that have a direct impact on the reliability and cost of services provided by the licensee as part of its Transmission Business;~~
- ~~(w) — the network capability measure, which relates to the level of the capability and utilisation of the licensee’s Transmission System at entry~~

~~and exit points and to other network capability and utilisation factors;  
and~~

~~(x) — the Network Replacement Outputs, which are used to measure the licensee's asset management performance as required in Special Condition 2M (Specification of Network Replacement Outputs).~~

~~collectively the "Network Output Measures" to which paragraph 2L.2(b) of this condition refers.~~

~~2L.5 — The licensee must set out in its NOMs Methodology the categories of data that are to be used and the methodology that is to be applied to such data to derive each of the Network Output Measures.~~

#### **Part D: Implementation of the NOMs Methodology**

~~2L.6 — Except where the Authority otherwise consents in writing, the licensee must provide it with:~~

~~(y) — information (whether historic, current, or forward-looking) about the Network Output Measures; supported by~~

~~(z) — such relevant other data and examples of network modelling, as may be specified for the purposes of this condition in any Regulatory Instructions and Guidance ("RIGs") that have been issued by the Authority in accordance with the provisions of Standard Condition B15 (Regulatory Instructions and Guidance).~~

~~2L.7 — The provision of information and other requirements set out in paragraph 2L.6 must be provided in such manner, in respect of such periods, and within such timeframes as may be specified in the RIGs to which that paragraph refers.~~

#### **Part E: Modification of the NOMs Methodology**

~~2L.8 — The licensee must from time to time, and at least once every year, review the NOMs Methodology to ensure that it facilitates the achievement of the NOMs Methodology Objectives.~~

~~2L.9 — The NOMs Methodology may be modified from time to time to facilitate better the achievement of the NOMs Methodology Objectives.~~

~~2L.10 The licensee may make a modification to the NOMs Methodology, subject to paragraph 2L.12 of this condition, after:~~

- ~~(aa) consulting with other Transmission Licensees to which a condition of equivalent effect to this condition applies and with any other interested parties, allowing them a period of at least 28 days within which to make written representations with respect to the licensee's modification proposal; and~~
- ~~(bb) submitting to the Authority a report that contains all of the matters that are listed in paragraph 2L.11 of this condition.~~

~~2L.11 The matters to which paragraph 2L.10(b) of this condition refer are the following:~~

- ~~(cc) a statement of the proposed modification to the NOMs Methodology;~~
- ~~(dd) a full and fair summary of any representations that were made to the licensee pursuant to paragraph 2L.10(a) of this condition and were not withdrawn;~~
- ~~(ee) an explanation of any changes that the licensee has made to its modification proposal as a consequence of representations;~~
- ~~(ff) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NOMs Methodology Objectives;~~
- ~~(gg) a presentation of the data and other relevant information (including historical data, which should be provided, where reasonably practicable, for a period of at least ten years prior to the date of the modification proposal) that the licensee has used for the purpose of developing the proposed modification;~~
- ~~(hh) a presentation of any changes to the Network Replacement Outputs, as set out in the tables in Special Condition 2M (Specification of Network Replacement Outputs), that are necessary as a result of the proposed modification to the NOMs Methodology; and~~
- ~~(ii) a timetable for the implementation of the proposed modification, including an implementation date (which must not be earlier than the~~

date on which the period referred to in paragraph 2L.12 of this condition would expire).

~~2L.12 Where the licensee has complied with the requirements of paragraphs 2L.10 and 2L.11 of this condition, the licensee must implement the proposed modification to the NOMs Methodology unless the Authority, within 28 days after receiving the report submitted to it under paragraph 2L.10(b) of this condition, issues a direction to the licensee requiring it not to implement the proposed modification.~~

~~2L.13 The Authority, after consulting with the licensee and any other interested parties, may direct the licensee to modify the NOMs Methodology in such manner, to such extent, and with effect from such time as may be specified in the direction.~~

~~2L.14 The licensee must comply with the requirements of any direction given to it under paragraph 2L.13 of this condition.~~

Special Condition 2M. . Specification of Network Replacement Outputs

**Introduction Not Used**

**Drafting Change:** 2M (Specification of Network Replacement Outputs) will not be used in NGENSO licence as it is a TO only obligation.

~~2M.1—The purpose of this condition is to specify the Network Replacement Outputs the licensee must deliver during the Price Control Period, and the incentive reward or penalty associated with material over or underdeliveries against those outputs, and the Allowed Expenditure associated with them.~~

**Part A: ~~Specification of Network Replacement Outputs~~**

~~2M.2—Subject to paragraph 2M.3 of this condition, by the end of the Price Control Period the licensee must deliver the Network Replacement Outputs in accordance with the specifications set out in Table 1.~~

**Table 1: ~~Network Replacement Outputs~~**

Asset categories		Units	Asset distribution based on Replacement Priority at 31 March 2021			
			Replacement Priority (where RP1 is highest risk category)			
			RP1	RP2	RP3	RP4
<b>400KV Network</b>		-	-	-	-	-
1	Circuit Breaker	Units	6	6	7	1148
2	Transformer	Units	13	9	31	358
3	Reactors	Units	3	3	2	14
4	Underground Cable	Km	7.1	0.0	10.5	283.1
5	OHL conductor	Km	1531	1152	945	7192
6	OHL fittings	Km	1542	568	913	7800
<b>275KV Network</b>		-				
1	Circuit Breaker	Units	21	44	62	466

2	Transformer	Units	25	20	52	262
3	Reactors	Units	3	4	4	12
4	Underground Cable	Km	79.2	4.3	85.5	152.0
5	OHL conductor	Km	402	343	489	2402
6	OHL fittings	Km	132	357	224	2333
<b>132KV Network</b>		-				
1	Circuit Breaker	Units	46	84	60	975
2	Transformer	Units	0	2	4	6
3	Reactors	Units	32	27	7	37
4	Underground Cable	Km	0.0	1.5	2.6	14.5
5	OHL conductor	Km	75	54	37	120
6	OHL fittings	Km	79	67	0	144

~~2M.3—The licensee shall also be deemed to have delivered a particular Network Replacement Output for the purposes of paragraph 2M.2 of this condition, notwithstanding a failure to meet the relevant specifications in Table 1 of this condition, if by the end of the Price Control Period:~~

- ~~(a)—it delivers an equivalent level of risk to the Network Replacement Output specified in Table 1 of this condition (a “materially equivalent output”); or~~
- ~~(a)—it delivers the Network Replacement Output or a materially equivalent output to a lower level of risk than that set out in Table 1 of this condition, but that overdelivery is justified in accordance with the RIIQ Principles (a “justified material overdelivery”); or~~
- ~~(b)—it delivers the Network Replacement Output or a materially equivalent output to a higher level of risk than that set out in Table 1 of this condition, or delivers neither the Network Replacement Output or a materially equivalent output, but that underdelivery is justified in accordance with the RIIQ Principles (a “justified material underdelivery”).~~



~~2M.4—The Authority shall assess the licensee’s performance under paragraphs 2M.2 and 2M.3 of this condition in accordance with the process set out in Part B of this condition for the purposes of determining whether adjustments should be made to Allowed Expenditure in the second price control period (to commence 1 April 2021) in accordance with the principles set out in the table in Part C of this condition.~~

~~2M.5—In assessing whether the licensee should be deemed to have delivered a particular Network Replacement Output under paragraph 2M.3 of this condition the Authority will, amongst other things, take account of any trade-offs between asset categories which the licensee is able to demonstrate has or are likely to deliver an equivalent or better set of Network Outputs to those specified in Table 1 of this condition.~~

**~~Part B: Procedure for assessing Network Outputs and associated Price Control Allowed Expenditure Adjustments~~**

~~2M.6—By 31 July 2021 the licensee must provide a report to the Authority setting out the extent to which it has complied with paragraph 2M.2 of this condition, including (as relevant) detailed explanations together with supporting evidence as to why the licensee considers that it has delivered:~~

- ~~(a) a Network Replacement Output in accordance with the relevant —specifications set out in Table 1;~~
- ~~(b) any materially equivalent outputs;~~
- ~~(c) any justified material overdelivery; or~~
- ~~(d) any justified material underdelivery.~~

~~2M.7—The licensee shall provide such further analysis or information, and in accordance with such timescales, as the Authority considers are reasonably necessary to enable it to undertake its assessment for the purposes of its determination under paragraph 2M.4 of this condition.~~

~~2M.8—A determination by the Authority under Part B of this condition will be of no effect unless the Authority has first:~~

- ~~(a)—given notice to the licensee and to any other interested parties that it proposes to make the determination:
  - ~~(i)—stating the reasons for and the effects of its proposed determination; and~~
  - ~~(ii)—specifying the time (which must not be less than a period of 56 days) within which representations concerning the proposed determination may be made; and~~~~
- ~~(b)—considered any representations in response to the notice that are duly made and not withdrawn.~~

**~~Part C: Principles for determining adjustments to allowed revenue~~**

~~2M.9—The Authority shall determine whether adjustments should be made to allowed revenue in the second price control period (to commence 1 April 2021) in accordance with the principles set out in Table 2 below:~~

**~~Table 2: Treatment of under and over-delivery of Network Replacement Outputs~~**

<del>Incentives</del>	<del>Justified</del>	<del>Unjustified</del>
<del>Over-delivery</del>	<del>Cost of over-delivery shall be included in the second price control period allowances</del> <del>The financing cost incurred by the licensee in advancing investment shall be reimbursed</del> <del>Reward of 2.5 per cent of the additional costs associated with the material overdelivery</del>	<del>Cost of over-delivery shall be included in the second price control period allowances</del> <del>The licensee shall incur the financing cost of earlier investment</del>

Under-delivery	<p>Cost of under-delivery shall be excluded from the second-price-control-period allowances</p> <p>The licensee shall benefit from the financing-cost of delayed investment</p>	<p>Cost of under-delivery shall be excluded from the second-price-control-period allowances</p> <p>The benefit arising to the licensee from the financing-cost of delayed investment shall be clawed back</p> <p>Penalty of 2.5 per cent of the avoided costs associated with the material under-delivery</p>
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**Part D: Allowed expenditure for Network Replacement Outputs**

2M.10 The Allowed Expenditure figures to deliver the Network Replacement Outputs are set out in Table 3. These allowances have been reflected in the licensee's Opening Base Revenue Allowance, set against the licensee's name in Appendix 1 to Special Condition 3A (Restriction of Transmission Network Revenue).

**Table 3: Allowed expenditure for Network Replacement Outputs**

Relevant Year	Allowed expenditure (£m 2009/10 prices)
2013/14	477.616
2014/15	471.311
2015/16	464.910
2016/17	470.457
2017/18	605.301
2018/19	705.665
2019/20	771.141
2020/21	692.256

## Special Condition 2N. Electricity Market Reform

### Introduction

2N.1 This condition sets out the licensee's obligations as to its conduct in performing the EMR Functions.

### Part A: Objectives

2N.2 The licensee shall:

- (a) in performing the EMR Relevant Duties, act in a manner best calculated to secure:
  - (i) the efficient and effective carrying on of the EMR Functions;
  - (ii) compliance with the principles appearing to it to represent best regulatory practice; and
- (b) in performing the EMR Functions, act in a manner best calculated to secure that none of the licensee's businesses, nor any business of any Associate of the licensee, obtains an unfair commercial advantage as a result of the licensee carrying out the EMR Functions, including through any arrangements the object or effect of which is that the exercise of the EMR Functions is unduly influenced in favour of those businesses.

**Drafting Change:** References to 'National Grid Electricity Transmission plc' will be updated to refer to new NGESO legal entity.

### Part B: Legal and functional separation of National Grid Electricity

**Transmission System Operator ~~plc~~ Limited and Relevant Other Competitive Businesses**

2N.3 Without prejudice to the licensee's obligations under Standard Condition B5 (Prohibition of cross-subsidies), Standard Condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business) and Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions~~Relevant System Planning Activities~~), the licensee shall at all times conduct its activities, including carrying out the EMR Functions, separately from the Relevant Other Competitive Businesses, provided that nothing in Part B of this Special Condition 2N shall prevent the licensee from complying with any Section E (offshore transmission owner of last resort) Direction made pursuant to Standard Condition B18 (Offshore Transmission Owner of Last Resort).

2N.4 Without prejudice to the generality of paragraph 2N.3, in order to comply with paragraph 2N.3 the licensee shall ensure that at a minimum:

- (a) the Relevant Other Competitive Businesses are conducted entirely by corporate entities which are separate from that of the licensee and the licensee does not, directly or indirectly, hold any shares or other investments:
  - (i) in any corporate entity which conducts any of the Relevant Other Competitive Businesses or which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or any of the assets used in or dedicated to any of the Relevant Other Competitive Businesses; or
  - (ii) which give the holder an entitlement to vote at the general meetings of any of the corporate entities which conduct the Relevant Other Competitive Business or in any company

which exercises or otherwise has control of any of the Relevant Other Competitive Businesses;

- (b) the licensee's accounts are maintained and to the extent required by law audited and reported separately from those of any corporate entity which conducts Relevant Other Competitive Business;
- (c) persons engaged in, or in respect of, the management or operation of the licensee (up to and including the members of the senior management team reporting to the licensee's board of directors) are not simultaneously engaged either full or part time in respect of any Relevant Other Competitive Business or any corporate entity which conducts Relevant Other Competitive Business, other than in the provision of Shared Services provided by the licensee to its Associates and the provision of services which constitute de minimis business (as defined in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing)) to the extent that:
  - (i) the provision of those services by the licensee complies with the requirements of Standard Conditions B5 (Prohibition of cross-subsidies), B6 (Restriction on Activity and Financial Ring Fencing) and B9 (Indebtedness); and
  - (ii) except where the Authority consents or directs, persons engaged in, or engaged in respect of, the management or operation of the EMR Functions are not simultaneously engaged in or in respect of a de minimis business as defined in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing);
- (d) arrangements are in place which are effective in restricting access by persons engaged in, or engaged in respect of, the management or operation of any of the Relevant Other Competitive Businesses to any part of any premises which is occupied by persons engaged

in, or in respect of, the management or operation of the licensee including persons engaged in the EMR Functions;

- (e) the systems for the recording, processing or storage of Confidential EMR Information used by persons engaged in, or engaged in respect of, the management or operation of the licensee's activities (including carrying out the EMR Functions) cannot be accessed by persons engaged in, or engaged in respect of, the management or operation of the Relevant Other Competitive Businesses; and
- (f) the licensee establishes and maintains in force a code of conduct governing the disclosure of Confidential EMR Information by persons carrying out EMR Functions.

**Part C: Establishment of the EMR Data Handling Team and the EMR Administrative Team**

2N.5 By no later than 7 days after this condition comes into effect, the licensee shall establish an EMR Data Handling Team and shall thereafter operate, supervise and manage the EMR Data Handling Team in a manner compliant with this condition.

2N.6 Without prejudice to the generality of paragraph 2N.5, in order to comply with paragraph 2N.5 the licensee shall in particular ensure that at a minimum:

- (a) subject to paragraphs 2N.6A, 2N.13 and 2N.13A, the EMR Data Handling Team shall, in presenting Confidential EMR Delivery Plan Information to a person who is not a member of the EMR Data Handling Team, use all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Delivery Plan Information;

- (b) each member of the EMR Data Handling Team:
  - (i) signs a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR compliance statement pursuant to paragraph 2N.18(b)(ii); and
  - (ii) complies with a policy set out in the EMR compliance statement governing the transfer of employees into and out of the carrying out of the EMR Functions; and
- (c) the EMR Data Handling team is supervised and managed by a manager responsible for the control of the Confidential EMR Delivery Plan Information disclosed to persons carrying out the EMR Data Handling Functions, and for ensuring that the EMR Data Handling Team members comply with the obligations in this paragraph 2N.6.

2N.6A Paragraph 2N.6(a) shall not apply to the disclosure of Confidential EMR Delivery Plan Information by the EMR Data Handling Team to the EMR Administrative Team where such disclosure is necessary in order to enable the licensee to perform:

- (a) its EMR Function under regulation 23(2) of the Electricity Capacity Regulations 2014 of advising the Secretary of State on whether to adjust the demand curve for a capacity auction; and
- (b) such other EMR Functions where the Authority has given its prior written consent.

2N.6B Subject to paragraphs 2N.13 and 2N.13A, where Confidential EMR Delivery Plan Information is disclosed to the EMR Administrative Team under paragraph 2N.6A, the licensee shall ensure that the EMR Administrative Team does not disclose that information to a person who is not a member of the EMR Administrative Team or the EMR Data Handling



Team without having used all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Delivery Plan Information.;

2N.7 By no later than 7 days after this condition comes into effect, the licensee shall establish an EMR Administrative Team and shall thereafter operate, supervise and manage the EMR Administrative Team in a manner compliant with this condition.

2N.8 The licensee shall ensure that:

(a) the EMR Administrative Team is responsible for carrying out the EMR Administrative Functions; and

(b) subject to paragraphs 2N.8A, 2N.13 and 2N.13A, in presenting Confidential EMR Administrative Information to a person who is not a member of the EMR Administrative Team, the EMR Administrative Team shall use all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Administrative Information.

2N8.A Paragraph 2N.8(b) shall not apply to the disclosure of Confidential EMR Administrative Information by the EMR Administrative Team to the EMR Data Handling Team where such disclosure is necessary in order to enable the licensee to perform:

(a) its EMR Functions under Part 3 (Electricity capacity reports) of the Electricity Capacity Regulations 2014 of preparing, amending and updating an annual capacity report; and

- (b) such other EMR Functions where the Authority has given its prior written consent.

2N.8B Subject to paragraphs 2N.13 and 2N.13A, where Confidential EMR Administrative Information is disclosed to the EMR Data Handling Team under paragraph 2N.8A, the licensee shall ensure that the EMR Data Handling Team does not disclose that information to a person who is not a member of the EMR Data Handling Team or the EMR Administrative Team without having used all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Administrative Information.;

2N.9 The licensee shall ensure that each member of the EMR Administrative Team shall:

- (a) sign a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR compliance statement pursuant to paragraph 2N.18(c)(ii);
- (b) not be, while a member of the EMR Administrative Team, simultaneously engaged in, or in respect of, any activity of the licensee other than:
  - (i) the performance of EMR Administrative Functions; or
  - (ii) providing assistance to the EMR Data Handling Team to the extent necessary to enable the licensee to perform its EMR Functions where Confidential EMR Administrative Information has been disclosed to the EMR Data Handling Team under paragraph 2N.8A; and;

(c) be, for periods of time agreed by the Authority and specified in the EMR compliance statement:

(i) assigned to the EMR Administrative Team for a minimum posting period; and

(ii) prohibited from engaging in, or in respect of, the management or operation of a Relevant Other Competitive Business at the conclusion of that member's posting.

2N.10 For the avoidance of doubt, paragraph 2N.9 shall not prevent members of the EMR Administrative Team from engaging in the licensee's recruitment, training and further education activities and such other activities:

(a) as may be specified in the EMR compliance statement; or

(b) to which the Authority has given its prior written consent.

2N.11 The licensee shall ensure that the EMR Administrative Team is accommodated in premises or parts of premises where arrangements are in place which are effective in restricting access by persons who are not members of the EMR Administrative Team.

#### **Part D: Restrictions on the use of Confidential EMR Information**

2N.12 The licensee shall, and shall procure that its employees, agents, contractors and advisers shall:

(a) treat and keep all Confidential EMR Information as confidential;

(b) ensure that any Confidential EMR Information is not directly or indirectly disclosed to any other person other than as provided in paragraphs 2N.13 and 2N.13A;

- (c) not use any Confidential EMR Information for any purpose other than:
  - (i) performing the EMR Functions;
  - (ii) carrying on the Balancing Services Activity;
  - (iii) any other purpose for which the licensee has obtained prior written consent from the Authority or which is specified in the EMR compliance statement; or
  - (iv) as permitted by regulation 65 of the Electricity Capacity Regulations 2014

PROVIDED THAT Confidential EMR Administrative Information and Confidential EMR Delivery Plan Information shall not be used for the purposes set out in sub-paragraphs (ii) and (iii) unless all reasonable endeavours have been taken pursuant to paragraphs 2N.6(a), 2N.6B, 2N.8(b) or 2N.8B to protect from disclosure the source of such information; and;

- (d) without prejudice to (c) above, ensure that Confidential EMR Information is not disclosed to or solicited or used by the Transmission Business, any other business of the licensee or any Associate of the licensee which carries on any Relevant Other Competitive Business.

2N.13 The licensee may disclose Confidential EMR Information:

- (a) where required by, or by virtue of, any requirement of law or regulation or by, or by virtue of, the rules of any governmental or other regulatory authority having jurisdiction over the licensee;
- (b) where authorised in advance in writing by the Authority;

- (c) to the extent that the person to whom such Confidential EMR Information relates has consented to such disclosure;
- (d) to such other bodies or persons exercising functions conferred by or under Chapters 2, 3 and 4 of Part 2 of the Energy Act 2013 to the extent that such disclosure is required to enable that body or person to carry out those functions; or
- (e) where such disclosure is permitted by regulation 65 of the Electricity Capacity Regulations 2014.”;

2N.13A The licensee may disclose Confidential EMR Information to:

- (a) its employees, agents, contractors and advisers, other than persons referred to in paragraph 2N.18(a)(vi), to the extent that such disclosure is required to enable the licensee to perform its EMR Functions; or
- (b) to persons engaged in, or in respect of, Shared Services, to the extent necessary to enable them to perform their respective functions;

and in each case the licensee shall procure that:

- (i) the recipients of such Confidential EMR Information only hold the information for such period as is necessary to enable the recipients to perform their respective functions; and
- (ii) prior to disclosure, the recipients of such Confidential EMR Information enter into confidentiality obligations in respect of such information in a form specified in the EMR compliance statement.”; and

## **Part E: EMR Compliance Statement**

- 2N.14 By no later than 30 days after this condition comes into effect, the licensee shall, unless the Authority otherwise consents or directs, at all times have in place and comply with a statement (the “EMR compliance statement”) approved by the Authority, describing the practices, procedures and systems by which the licensee will secure compliance with the EMR Relevant Duties.
- 2N.15 Where the Authority does not indicate otherwise within 60 days of receipt of the EMR compliance statement, or any revision thereof, the EMR compliance statement shall be deemed to be approved by the Authority.
- 2N.16 The licensee shall, at least every 12 months or at such other interval as the Authority may direct, review the description set out in the EMR compliance statement and shall revise such EMR compliance statement as necessary to ensure that the description set out in it continues to be complete and accurate in all material respects. The licensee shall alter the EMR compliance statement only with the approval of the Authority.
- 2N.17 The licensee shall send a copy of the EMR compliance statement, and each revision of it as and when it is made, to the Authority. The licensee shall publish a copy of such EMR compliance statement and each revision of it on its website.
- 2N.18 The EMR compliance statement shall in particular (but without prejudice to the generality of paragraphs 2N.14 and 2N.16) set out how the licensee will ensure the confidentiality of:
- (a) Confidential EMR Information by means which shall include, but need not be limited to:
    - (i) compliance with the requirements set out in paragraph 2N.12;

- (ii) requiring adherence to the code of conduct referred to in paragraph 2N.4(f), by those subject to it, to form part of the licensee's disciplinary policies;
- (iii) establishing and maintaining a training programme designed to ensure that employees, agents, contractors and advisers receive such initial and continuing training as is necessary to enable the licensee to comply with the requirements of this condition;
- (iv) ensuring that the persons engaged in the business of any Associate or business of the licensee other than performing the EMR Functions do not have access to any parts of systems for the recording, processing or storage of Confidential EMR Information;
- (v) ensuring that:
  - (A) any parts of systems used for the recording, processing or storage of:
    - i. Confidential EMR Delivery Plan Information can be accessed only by the EMR Data Handling Team;
    - ii. Confidential EMR Administrative Information can be accessed only by the EMR Administrative Team; and
  - (B) neither Confidential EMR Delivery Plan Information nor Confidential EMR Administrative Information can be accessed by any other persons;
- (vi) identifying the persons to whom Confidential EMR Information should never be disclosed by reference to the functions of those persons; and

- (vii) maintaining a list of persons to whom Confidential EMR Information has been disclosed or who have access to Confidential EMR Information (whether on a regular or an occasional basis), a copy of which the licensee shall provide on request to the Authority;
  
- (b) Confidential EMR Delivery Plan Information by means which shall include, but need not be limited to:
  - (i) compliance with the requirements set out in paragraph 2N.12;
  - (ii) establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in 2N.6(b)(i);
  - (iii) establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Delivery Plan Information;
  - (iv) maintaining the EMR Data Handling Team in accordance with paragraphs 2N.6(b)(ii) and 2N.6(c);
  - (v) establishing and maintaining information system security policies; and
  - (vi) establishing and maintaining document management and security policies; and
  
- (c) Confidential EMR Administrative Information by means which shall include, but need not be limited to:
  - (i) compliance with the requirements set out in paragraph 2N.12;



- (ii) establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in 2N.9(a);
- (iii) maintaining the EMR Administrative Team in accordance with paragraphs 2N.9(b), 2N.9(c) and 2N.11;
- (iv) establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Administrative Information;
- (v) establishing and maintaining information system security policies; and
- (vi) establishing and maintaining document management and security policies.

**Part F: Appointment of EMR compliance officer and EMR compliance reporting**

**Drafting Change: The modification below in 2N.19 ensures that the EMR compliance officer may undertake other compliance roles in the ESO only.**

2N.19 The licensee shall ensure, following consultation with the Authority, that a competent person (who shall be known as the “EMR compliance officer”) shall be appointed for the purpose of facilitating compliance by the licensee with the EMR Relevant Duties. For the avoidance of doubt, the person appointed as EMR compliance officer pursuant to this paragraph may also hold other compliance officer roles for the licensee ~~or its~~ **Associates licensed under the Act or the Gas Act 1986.**

2N.20 The licensee shall appoint a single responsible director (the “Single Responsible Director”) for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the EMR compliance officer set out in paragraph 2N.24 and the licensee’s compliance with its EMR Relevant Duties. The Single Responsible Director shall report to the board of

directors of the licensee in relation to the obligations set out in this Special Condition 2N.

- 2N.21 The licensee shall ensure that the EMR compliance officer:
- (a) is provided with such employees, premises, equipment, facilities and other resources; and
  - (b) has such access to the licensee's premises, systems, information and documentation,

as, in each case, the EMR compliance officer might reasonably expect to require for the fulfilment of the duties and tasks assigned to the EMR compliance officer pursuant to this Special Condition 2N.

- 2N.22 Except to the extent provided for in paragraph 2N.19, the licensee shall ensure that the EMR compliance officer is not engaged in the management or operation of the Transmission Business, any Associate, other business of the licensee or any Relevant Other Competitive Businesses.

- 2N.23 The licensee shall make available to the EMR compliance officer details of any complaint or representation received by it from any person in respect of a matter arising under or by virtue of the EMR Relevant Duties.

- 2N.24 The duties and tasks of the EMR compliance officer shall include:
- (a) providing advice and information to the licensee (including individual directors of the licensee) and the Single Responsible Director for the purpose of ensuring the licensee's compliance with the EMR Relevant Duties;
  - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the EMR Relevant Duties and described in the EMR compliance statement;

- (c) advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to secure the required co-operation;
- (d) investigating any complaint or representation made available to the EMR compliance officer in accordance with paragraph 2N.23;
- (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable; and
- (f) reporting annually to the Single Responsible Director as to the EMR compliance officer's activities in respect of the EMR Relevant Duties during the period covered by the report.

2N.25 As soon as is reasonably practicable and in any event no later than 90 days following the annual report of the EMR compliance officer, the licensee shall produce a report in a form approved by the Authority:

- (a) as to its compliance with the EMR Relevant Duties during the period since the last report; and
- (b) as to its implementation of the practices, procedures and systems adopted in accordance with the EMR compliance statement.

2N.26 The report produced in accordance with paragraph 2N.25 shall in particular:

- (a) detail the activities of the EMR compliance officer during the relevant period covered by the report;

- (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the EMR compliance statement;
- (c) set out the details of any investigations conducted by the EMR compliance officer, including:
  - (i) the number, type and source of the complaints or representations on which such investigations were based;
  - (ii) the outcome of such investigations; and
  - (iii) any remedial action taken by the licensee following such investigations; and
- (d) be accompanied by a compliance certificate in a form approved by the Authority, approved by a resolution of the board of directors of the licensee and signed in good faith by the Single Responsible Director pursuant to that resolution, on the licensee's compliance with the EMR Relevant Duties and certifying that, to the best of that director's knowledge, information and belief having made due and careful enquiry, the report of the EMR compliance officer fairly represents the licensee's compliance with the EMR Relevant Duties.

2N.27 The licensee shall, as soon as reasonably practicable and in any event no later than 14 days after the compliance certificate is approved by a resolution of the board of directors of the licensee as required by paragraph 2N.26(d), submit to the Authority a copy of the report and compliance certificate produced in accordance with paragraph 2N.26, and shall publish copies of each of them on its website.

2N.28 The licensee shall, if so directed by the Authority, appoint an Independent Examiner for the purpose of providing a written report to the Authority:

- (a) reviewing the practices, procedures and systems which have been implemented to secure compliance with this condition;
- (b) assessing the appropriateness of such practices, procedures and systems for securing compliance with the licensee's obligations under this condition; and
- (c) reporting on the licensee's compliance with the requirements of this condition.

2N.29 The Independent Examiner's report shall be provided to the Authority within three working days of the licensee receiving it from the Independent Examiner.

2N.30 The Independent Examiner's report shall be commissioned at such intervals as the Authority shall direct.

#### **Part G: General**

2N.31 Should the licensee cease to perform the EMR Functions:

- (a) paragraphs 2N.12 and 2N.13 shall continue in force to the extent required to protect Confidential EMR Information in accordance with the obligations set out in this condition; and
- (b) the other obligations under this condition shall remain in force for such time and on such terms as the Authority shall direct in writing.

#### **Part H: Definitions**

2N.32 In this condition:

**“Confidential EMR Information”** means all Information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee or any of its agents or representatives by virtue of the performance of EMR Functions by the licensee, but excluding:

- (a) all Information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence;
- (b) all Information which the licensee can demonstrate was lawfully in its written records prior to the date of disclosure of the same by the owner of the Confidential EMR Information or which it received from a third party independently entitled to disclose it; and
- (c) all Information properly received in the usual course of the licensee’s activities pursuant to paragraphs (a) to (c) (inclusive) of the definition of Permitted Purpose.

**“Confidential EMR Administrative Information”** means Confidential EMR Information disclosed to or acquired by the licensee by virtue of its role in performing EMR Administrative Functions.

**“Confidential EMR Delivery Plan Information”** means Confidential EMR Information which comprises either:

- (a) Information on the costs of low carbon electricity generation technologies; or
- (b) Information, the unauthorised disclosure of which would be adverse to the commercial interests of the Information provider,

in each case, where such Information is:

- (i) disclosed to or acquired by the licensee by virtue of its role in performing EMR Data Handling Functions; and
- (ii) specific to an individual energy industry participant, plant, facility, generating station or generation set, or the owner or operator thereof.

**“EMR Administrative Functions”** means any functions conferred on the licensee by or by virtue of:

- (a) the Electricity Capacity Regulations 2014, but excluding any functions conferred by or by virtue of Part 3 of those regulations;
- (b) any capacity market rules made by the Secretary of State pursuant to section 34(1) of the Energy Act and any capacity rules made by the Authority pursuant to section 34(3) of the Energy Act;
- (c) the Contracts for Difference (Allocation) Regulations 2014; and
- (d) any allocation framework made by the Secretary of State pursuant to section 13(2)(a) of the Energy Act.

**“EMR Administrative Team”** means the team established or to be established by the licensee in accordance with paragraph 2N.7.

**“EMR compliance statement”** is defined under paragraph 2N.14 of this Special Condition 2N.

**“EMR Data Handling Functions”** means the data anonymisation and data aggregation functions which shall be performed in order to achieve the objective specified in paragraph 2N.6(a).

**“EMR Data Handling Team”** means the team established or to be established by the licensee in accordance with paragraph 2N.5.

**“EMR Functions”** has the same meaning as the term “EMR functions” in Chapter 5 of Part 2 of the Energy Act 2013.

**“EMR Relevant Duties”** means the licensee’s obligations pursuant to this licence condition.

**“Energy Act”** means the Energy Act 2013.

**“Permitted Purpose”** shall have the meaning given in Standard Condition A1 (Definitions and interpretation).

**“Shared Services”** means shared corporate services (which shall not include regulatory services) as specified in the EMR compliance statement.

**“Single Responsible Director”** has the meaning given in paragraph 2N.20 of this Special Condition 2N.”



Special Condition 20. Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Operator Functions-Planning Activities

**Drafting Change:** Special Condition 20 provides the basis for the physical, legal and regulatory separation of the ESO from NGET's TO businesses, as well as separating ESO activities from National Grid's other competitive businesses. National Grid's 'OneSO' model is specifically allowed via the targeted provisions for Dual Fuel activities and roles.

## Introduction

20.1 The purpose of this condition is to set out the business separation requirements between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, the licensee's obligations as to its conduct in performing its Relevant System Operator Functions-Planning Activities, and the process-procedures the licensee must follow to comply with these obligations.

20.2 Part A sets out the objectives that the licensee must achieve when undertaking its System Operator Functions-Relevant System Planning Activities. Part B sets out the business separation requirements between the licensee and the Relevant Other Competitive Businesses and Relevant Regulated Businesses. Part C sets out the obligations on the licensee to restrict the use of information that the licensee has access to through its System Operator Functions-Relevant System Planning Activities. Part D sets out the compliance statement the licensee must publish to describe how it is meeting its specified business separation duties, as defined in paragraph 20.20. Part E sets out requirements on the licensee to appoint an independent compliance officer and annually report on compliance against the licensee's duties.

## Part A: Conduct of the licensee when undertaking its System Operator Functions-Relevant System Planning Activities

20.3 In carrying out its System Operator Functions-performing its Relevant System Planning Activities, the licensee must act in a manner intended to secure that neither the licensee, nor any Associate of the licensee, obtains an unfair

commercial advantage, including any advantage from a preferential or discriminatory arrangement as a result of the licensee carrying out its **System Operator Functions** **Relevant System Planning Activities**.

## **Part B: Legal and functional separation of the licensee and the Relevant Other Competitive Businesses**

20.4 The licensee must, in carrying out its licensed activities, put in place and at all times maintain such systems of control and other governance arrangements which are necessary to ensure that the licensee complies with the obligations contained in standard condition B5 (Prohibition of cross-subsidies), standard condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business).

20.5 Without prejudice to the licensee's obligations under the conditions referred to in paragraph 20.4 and Special Condition 2N (Electricity Market Reform), the licensee must at all times conduct its licensed activities **other than Dual Fuel Activities** separately from the Relevant Other Competitive Businesses **and the Relevant Regulated Businesses**, provided that nothing in Part B of this condition prevents the licensee from complying with any Section E (Offshore Transmission Owner of Last Resort) Direction made pursuant to standard condition B18 (Offshore Transmission Owner of Last Resort).

20.6 The licensee must ensure that the Relevant Other Competitive Businesses **and the Relevant Regulated Businesses** are conducted entirely by corporate entities each of which is separate from the licensee and that the licensee does not, directly or indirectly, hold any shares or other investments.

- (a) in any corporate entity which conducts any of the Relevant Other Competitive Businesses **or the Relevant Regulated Businesses** or which exercises or otherwise has control of any of the Relevant Other Competitive Businesses **or the Relevant Regulated Businesses** or any

of the assets used in or dedicated to any of the Relevant Other Competitive Businesses or the Relevant Regulated Businesses; or

- (b) which give the holder an entitlement to vote at the general meetings of any of the corporate entities which conduct the Relevant Other Competitive Businesses or the Relevant Regulated Businesses or in any company which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or the Relevant Regulated Businesses.

20.7 The licensee must ensure that its accounts are maintained and to the extent required by law audited and reported separately from those of any corporate entity which conducts Relevant Other Competitive Business or the Relevant Regulated Businesses.

20.8 The licensee must ensure that persons engaged in the management or operation of the licensee (up to and including the members of the licensee's board of directors ("board")) are not simultaneously engaged, either full or part time, in the management or operation :

a) \_\_\_\_\_ of any Relevant Other Competitive Business or any corporate entity which conducts Relevant Other Competitive Business; and/or;

b) of any Relevant Regulated Business except for persons in Dual Fuel Roles engaged in Dual Fuel Activities.

other than in the provision of Shared Services provided by the licensee to its Associates and the provision of services which constitute de minimis business (as defined in standard condition B6 (Restriction on Activity and Financial Ring Fencing)) to the extent that:

- ~~(a)~~ the provision of those services by the licensee complies with the requirements of standard conditions B5 (Prohibition of cross-subsidies), B6 (Restriction on Activity and Financial Ring Fencing) and B9 (Indebtedness); and

~~(b) — except where the Authority consents or directs, persons engaged in Relevant System Planning Activities are not simultaneously engaged in a de minimis business as defined in standard condition B6 (Restriction on Activity and Financial Ring Fencing).~~

20.9 The licensee must ensure that arrangements are in place which are effective in restricting access by persons engaged in the management or operation of any of the Relevant Other Competitive Businesses and/ or the Relevant Regulated Businesses (except for persons in Dual Fuel Roles engaged in Dual Fuel Activities) to:

- (a) any part of any premises which is occupied by persons engaged in the management or operation of the licensee; or
- (b) any equipment, facilities or property employed for the management or operation of the licensee.

20.10 Subject to paragraph 20.11, The licensee must ensure that the systems for the recording, processing or storage of data (including Relevant System Planning Information System Operator Functions Information) to which persons engaged in the management or operation of the licensee have access cannot be accessed by persons engaged in the management or operation of the Relevant Other Competitive Businesses or by persons engaged in the management or operation of the Relevant Regulated Businesses.

20.11 Paragraph 20.10 shall not apply to the operational information systems accessed by persons engaged in the management or operation of the licensee and by persons engaged in the management or operation of the Relevant Regulated Businesses and that are specified in the compliance statement established under Part D of this condition.

**Part C: Restrictions on the use of ~~System Operator Functions Relevant System Planning Information~~**

20.1~~24~~ The licensee must establish and maintain a code of conduct governing the disclosure and use of ~~System Operator Functions Information Relevant System Planning Information~~. The licensee must set out the code of conduct in the compliance statement, as provided for in paragraph 20.1~~56~~.

20.1~~23~~ The licensee must ensure that its employees, agents, contractors and advisers ensure that ~~System Operator Functions Information Relevant System Planning Information~~ is not directly or indirectly disclosed to, solicited, or used by any person who is not engaged in System Operator Functions (up to and including the members of the licensee's board of directors), other than as provided for in paragraph 20.1~~43~~.

20.1~~43~~ Paragraph 20.1~~32~~ shall not apply to the disclosure of Relevant System Planning Information:

- (a) where the licensee is specifically required to do so as a condition of this licence;
- (b) as required under the STC;
- (c) to persons engaged in the provision of Shared Services, to the extent necessary to allow them to carry out their respective functions in support of the ~~System Operator Functions Relevant System Planning Activities~~;
- (d) to persons in Dual Fuel Roles, to the extent necessary to allow them to carry out Dual Fuel Activities;
- (e) which is required by any requirement of law or regulation, or the rules of any governmental or regulatory authority having jurisdiction over the licensee; or

(fe) where the licensee has obtained prior written consent for such disclosure from the owner(s) of such System Operator Functions Information~~Relevant System Planning Information~~, provided that the extent of such disclosure is consistent with the consent obtained.

20.1~~45~~ The licensee must ensure that any System Operator Functions Information~~Relevant System Planning Information~~ received, disclosure of which would in the view of the owner(s) of the information affect their commercial interests, is treated as confidential. Any disclosure of such information must comply with paragraphs 20.1~~32~~ and 20.1~~43~~.

#### **Part D: Compliance statement and compliance documents**

20.1~~65~~ By no later than 30 days after this condition comes into effect, the licensee must submit to the Authority:

- (a) a statement (“the compliance statement”), describing the practices, procedures and systems by which the licensee will secure compliance with the specified business separation duties, as defined in paragraph 20.2~~10~~;
- (b) the proposed form of the compliance report, as provided for in paragraph 20.~~2728~~; and
- (c) the proposed form of the compliance certificate, as provided for in paragraph 20.~~2829~~(d).

20.~~46–17~~ On receipt of the documents provided for in paragraph 20.~~4516~~, or any revisions of them, as provided for in paragraph 20.~~4718~~(b), the Authority will:

- (a) approve the (individual) documents and notify the licensee of each approval; or

- (b) give a direction to the licensee that any of the documents requires further development and the date by which the licensee is required to submit a revision to the Authority for approval.

2O.17–18 Following the Authority's approval of the documents provided for in paragraph 2O.1516, the licensee must:

- (a) unless the Authority otherwise consents or directs, at all times comply with the terms of the approved compliance statement; and
- (b) at least every 12 months, or at such other interval as the Authority may direct, review these documents and revise them as necessary, including when circumstances change such that the documents no longer secure compliance with the specified business separation duties as defined in paragraph 2O.2021, to ensure that they continue to be complete and accurate in all material respects. The licensee must submit any revisions made to these documents to the Authority. Any revisions of these documents will only become effective once the Authority has approved them, in accordance with paragraph 2O.1617.

2O.18–19 The licensee must publish a copy of the approved compliance statement and each revision of it on its website within 15 working days of its approval by the Authority.

2O.19–20 The compliance statement must in particular (but without prejudice to the generality of paragraph 2O.1516) set out how the licensee will meet:

- (a) the objectives in Part A of this condition;
- (b) the business separation requirements provided for in Part B, with specific reference to:
  - (i) the arrangements for managerial and operational separation (including (but not limited to) arrangements to ensure the

independence of the licensee's chief executive, directors, senior managers and staff), as required in paragraph 20.8;

(ii) the arrangements for access restrictions, including processes to partition and control access to and visibility of data within operational information systems, as required in paragraphs 20.9, 20.10 and 20.11;

(iii) the treatment of Shared Services across the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, together with a list of those services which fall under the definition of Shared Services. This treatment will include providing for certain Shared Services to be provided to the licensee under a dedicated business partner arrangement to ensure any real or perceived conflict of interests are addressed;

(iv) the arrangements to manage the transfer of employees between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, such arrangements to include treating all such transfers as sensitive and accordingly subject to the review of the compliance officer appointed under Part E of this condition;

(v) the arrangements relating to the recruitment and employment of the licensee's employees and the incentivisation of the licensee's managers which, save for managers in Dual Fuel Roles engaged in Dual Fuel Activities, will be linked to the performance of the licensee only;

(vi) developing and maintaining a new visual and corporate identity for the licensee's Transmission Business that shall be distinct from those of the Relevant Other Competitive Businesses and the Relevant Regulated Businesses;



(vii) a description of the Dual Fuel Activities and Dual Fuel Roles

- (c) the restrictions on System Operator Functions Relevant System Planning Information provided for in Part C; and
- (d) the appointment of a compliance officer and compliance reporting, provided for in Part E.

### Part E: Appointment of a compliance officer and compliance reporting

20.20-21 The licensee must ensure, following consultation with the Authority, that a competent person (who shall be known as the “compliance officer”) is appointed for the purpose of facilitating compliance by the licensee with the obligations pursuant to this condition, standard condition B5 (Prohibition of Cross-subsidies), standard condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business), together the “specified business separation duties”. The person appointed as the compliance officer pursuant to this paragraph may also hold other compliance officer roles for the licensee or its Associates licensed under the Gas Act 1986.

20.21-22 The licensee must appoint a Single Appointed Director, being a member of the managerial board for the System Operator, for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the compliance officer set out in paragraph 20.26-27 and the licensee's compliance with the specified duties. The Single Appointed Director must report to the board of the licensee in relation to the obligations set out in this condition.

20.22-23 The licensee must establish a compliance committee (the “compliance committee”), being a sub-committee of the board of the licensee, for the purpose of overseeing and ensuring the performance of the duties and tasks of the compliance officer set out in paragraph 20.26-27 and the compliance

of the licensee with its specified **business separation** duties. **The compliance committee will be chaired by a sufficiently independent director appointed by the licensee in accordance with Condition B22 (Requirement for sufficiently independent directors).** The compliance committee will report to the board of the licensee and will include among its members the Single Appointed Director and such persons from within the licensee's business as are responsible for the management of regulatory issues relating to the licence.

20.**23–24** The licensee must ensure that the compliance officer:

- (a) is provided with such employees, premises, equipment, facilities and other resources; and
- (b) has such access to the licensee's premises, systems, information and documentation, as, in each case, the compliance officer might reasonably require for the fulfilment of the duties and tasks assigned to him **or her** pursuant to this condition.

20.**24–25** Except to the extent provided for in paragraph 20.**2021**, the licensee must ensure that the compliance officer is not engaged in the management or operation of the **System Operator FunctionsTransmission Business**, any Associate of the licensee or any Relevant Other Competitive Businesses.

20.**25–26** The licensee must make available to the compliance officer details of any complaint or representation received by it from any person in respect of the conduct of the licensee in undertaking the specified **business separation** duties.

20.**26–27** The duties and tasks of the compliance officer must include:

- (a) providing advice and information to the licensee (including individual directors of the licensee) and the Single Appointed Director for the purpose of ensuring the licensee's compliance with the specified **business separation** duties;

- (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the specified business separation duties and described in the compliance statement;
- (c) advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to secure the required co-operation;
- (d) investigating any complaint or representation made available to the compliance officer in accordance with paragraph 2O. 2526;
- (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;
- (f) providing relevant advice and information to the licensee (including individual directors of the licensee) and the compliance committee established under paragraph 2O. 2223, for the purpose of ensuring its implementation of:
  - (i) the practices, procedures and systems adopted in accordance with the compliance statement; and
  - (ii) any remedial action recommended in accordance with sub-paragraph (e);
- (g) reporting to the compliance committee any instances which come to his or her attention, relating to a member of any of the managerial boards of the licensee, taking into account the interests of a business other than that in respect of which the board of which he is a member of has been established; and

- (h) reporting annually to the compliance committee as to the compliance officer's activities in respect of the specified duties during the period covered by the annual report.

20.27-28 As soon as is reasonably practicable and in any event no later than 90 days following each annual report of the compliance officer, the licensee must produce, in a form approved by the Authority in accordance with paragraph 20.1617, a report ("the compliance report"):

- (a) as to its compliance with the specified **business separation** duties during the period since the last compliance report; and
- (b) as to its implementation of the practices, procedures and systems adopted in accordance with the compliance statement.

20.28-29 The compliance report produced in accordance with paragraph 20.2728 must in particular:

- (a) detail the activities of the compliance officer during the relevant period covered by the compliance report;
- (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the compliance statement;
- (c) set out the details of any investigations conducted by the compliance officer, including:
  - (i) the number, type and source of the complaints or representations on which such investigations were based;
  - (ii) the outcome of such investigations; and

- (iii) any remedial action taken by the licensee following such investigations; and
- (d) be accompanied by a certificate (“the compliance certificate”), in a form approved by the Authority in accordance with paragraph 2O.4617, approved by a resolution of the board of the sufficiently independent director chair of the compliance committee established under paragraph 2O.23 licensee and signed in good faith by the Single Appointed Director pursuant to that resolution, on the licensee’s compliance with the specified business separation duties. The compliance certificate should certify that, to the best of the Single Appointed Director’s knowledge of the sufficiently independent director chair of the compliance committee, information and belief, having made due and careful enquiry, the report of the compliance officer fairly represents the licensee’s compliance with the specified business separation duties.

2O.29-30 The licensee must, as soon as reasonably practicable, following the approval of the compliance certificate by the board of the licensee, and in any event no later than 120 days following each annual report of the compliance officer, submit to the Authority a copy of the compliance report and compliance certificate produced in accordance with paragraphs 2O.2728 and 2O.2829, and publish copies of each of them on its website.

2O.30-31 The licensee must, if so directed by the Authority, appoint an Independent Examiner for the purpose of providing a written report to the Authority:

- (a) reviewing the practices, procedures and systems which have been implemented to secure compliance with this condition;

- (b) assessing the appropriateness of such practices, procedures and systems for securing compliance with the licensee's obligations under this condition; and
- (c) reporting on the licensee's compliance with the requirements of this condition.

20.31-32 The Independent Examiner's report must be provided to the Authority within three working days of the licensee receiving it from the Independent Examiner.

20.32-33 The Independent Examiner's report must be commissioned at such intervals as the Authority may direct.

## **Part F: Definitions**

20.34 In this condition:

### **Dual Fuel Activities**

Means those activities which are conducted by the licensee in conjunction with National Grid Gas plc (company number 2006000) (and its successors in title) in its role as gas system operator in order to be delivered in a manner that provides a single combined view of energy security, insights and/or coordination into the interactions between the gas and electricity sectors, and where such activities add value for energy consumers

### **Dual Fuel Roles**

Means those employment roles which are engaged in Dual Fuel Activities and which are specified as such in the compliance statement established under Part D of this condition

Relevant Regulated  
Businesses

Means National Grid Electricity Transmission plc (company number 2366977) (and its successors in title) and its affiliates or related undertakings that is participating in the transmission of electricity pursuant to a transmission licence treated as granted to National Grid Electricity Transmission plc under section 6(1)(b) of the Act; and National Grid Gas plc (company number 2006000) (and its successors in title) and its affiliates or related undertakings that is participating in gas transportation pursuant to a gas transporter licence treated as granted to National Grid Gas plc under section 7 of the Gas Act 1986.

System Operator Functions  
Information

Means all Information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee's employees, agents, contractors and advisors solely by virtue of the performance of System Operator Functions by the licensee, but excluding all information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence

## Chapter 3: Transmission – Revenue Restriction

### Special Condition 3A. Restriction of Transmission Network Revenue

#### Introduction

3A.1 The purpose of this condition is as follows:

~~(c)~~(a) to establish the charging restrictions that determine the level of Maximum Revenue that may be recovered by the licensee through Transmission Network Charges; and

~~(d)~~(b) to set out the obligations on the licensee in respect of those restrictions.

#### Part A: Licensee's obligation

3A.2 The licensee, in setting Transmission Network Charges, must use its best endeavours to ensure that, in Relevant Year  $t$ , Transmission Network Revenue ( $TNR_t$ ) does not exceed Maximum Revenue ( $TO_t$ ) in that year.

#### Part B: Calculation of Maximum Revenue ( $TO_t$ )

3A.3 Maximum Revenue, in Relevant Year  $t$ , is derived in accordance with the following formula (in this condition, the "Principal Formula"):

**Drafting Change:** The Principal Formula has been changed to remove  $BR_t$ , as there will be no base revenue here for the SO and NGET will have the BR term in its allowed TO revenue calculation. The term  $OIP_t$  has been removed as the Stakeholder Satisfaction Output will remain in the TO licence only (see comments at 3D for further information on this change). The term  $TIRG_t$  is removed as this relates to the TO only. The term  $K_t$  will be zero in 19/20 and 20/21 in the SO licence as it will be recovered by NGET. The term  $TRU_t$  is required due to pass through cost adjustment true up.  **$FIN_t$  has been added to reflect the allocation of costs of the NGESO financing facility (see also Appendix 1 of this condition)**

$$TO_t = TRU_t + PT_t + NIA_t + NICF_t + DIS_t + TS_t + FIN_t - K_t$$

3A.4 In the Principal Formula:



$TO_t$  means the amount of Maximum Revenue in Relevant Year t.

$TRU_t$  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 3A.5 of this condition.

~~$TRU_t$  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 3A.5 of this condition.~~

~~$BR_t$  means the amount of Base Transmission Revenue in Relevant Year t as derived in accordance with the formula set out in Part C of this condition.~~

$PT_t$  means the allowed pass-through items revenue adjustment made in Relevant Year t as derived in accordance with Special Condition 3B (Calculation of allowed pass-through items).

~~$OIP_t$  means the outputs incentive revenue adjustment made in Relevant Year t as derived in accordance with the formula set out in Part D of this condition.~~

$NIA_t$  means the revenue adjustment made in Relevant Year t in respect of the Network Innovation Allowance as derived in accordance with Special Condition 3H (The Network Innovation Allowance).

$NICF_t$  means the revenue adjustment made in Relevant Year t in respect of the allowance given under the Network Innovation Competition as derived in accordance with Special Condition 3I (The Network Innovation Competition).

~~TIRG<sub>t</sub>~~ means, for each Relevant Year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Annex A of Special Condition 3J (Transmission Investment for Renewable Generation), as derived in accordance with that condition.

DIS<sub>t</sub> means the adjustment as a result of:

(a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro Electric Transmission Plc ~~and~~ SP Transmission Ltd and National Grid Electricity Transmission plc in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC) minus

(b) the total income recovered by the licensee in respect of Excluded Services in Relevant Year t-1 from customers in the respective Transmission Areas of ~~each of~~ Scottish Hydro Electric Transmission Plc ~~and~~ SP Transmission Ltd and National Grid Electricity Transmission plc.

$TS_t$  means the adjustment as a result of :

(a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro Electric Transmission Plc, SP Transmission Ltd, [National Grid Electricity Transmission plc](#) and any Offshore Transmission Owner in respect of Transmission Owner Final Sums (as such charges are defined in schedule nine of the STC) minus

(b) an amount equal to the income received by the licensee in Relevant Year t-1 in respect of users who reduce TEC or developer capacity (as defined in CUSC) or who terminate relevant bilateral agreements for connection and/or access rights to the [National Electricity Transmission System](#) ~~GB transmission system~~ in the respective Transmission Areas of each of Scottish Hydro Electric Transmission Plc, SP Transmission Ltd, [National Grid Electricity Transmission plc](#) and any Offshore Transmission Owner (for the avoidance of doubt, including any amounts that are treated as capital contributions).

**FIN<sub>t</sub>** means the amount set out against the licensee's name in Appendix 1 of this condition and represents the costs relating to the licensee's financial facilities (based on £500m (9-10 prices) facility) and parent company guarantee costs (PCG) in Relevant Year t as agreed with the Authority

$K_t$  means the correction term in Relevant Year t as derived in accordance with the formula set out in Part E of this condition.

**Drafting Change:** Part C changed from 'Calculation of Base Transmission Revenue (BR<sub>t</sub>)' to 'Calculation of TRU<sub>t</sub>'.

**Part C: ~~Calculation of Base Transmission Revenue (BR<sub>t</sub>)~~ [Calculation of TRU<sub>t</sub>](#)**

3A.5 For the purposes of the Principal Formula,  $TRU_t$  is derived in accordance with the following formula:

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

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

3A.6 In the above formula for ~~BR~~ TRU<sub>t</sub>:

- PU<sub>t</sub> means the amount set out against the licensee's name in Appendix 1 of this condition and represents the Opening Base Revenue Allowance in Relevant Year t determined by the Authority in relation to the transmission of electricity.
- MOD<sub>t</sub> has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year is the value of the incremental change for Relevant Year t from the licensee's Opening Base Revenue Allowances 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).
- TRU<sub>t</sub> 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 3A.8 of this condition.
- REV<sub>t-2</sub> means the amount (in 2009/10 prices), for Relevant Year t-2, of the combined value of all Relevant TO Special Condition revenue adjustments that are indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 3A.8 of this condition.
- PVF<sub>t</sub> means the present value adjustment term for Relevant Year t and will be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority in accordance with the Annual Iteration Process, and the expressions PVF<sub>t-1</sub> and PVF<sub>t-2</sub> will be interpreted accordingly.
- RPIF<sub>t</sub> is the price index adjustment factor in Relevant Year t as derived in accordance with paragraph 3A.7 of this condition.

3A.7 For the purposes of paragraph 3A.6 of this condition,  $RPIF_t$  is derived in accordance with the following formula:

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

where:

$RPIA_t$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Relevant Year t divided by the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2009 to 31 March 2010 as derived in accordance with the following formula:

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

where:

$RPI_t$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Relevant Year t.

$RPI_{2009/10}$  means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2009 to 31 March 2010.

and:

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

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

where:

GRPIF<sub>c</sub> means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Relevant Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case, the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication “Forecasts for the UK Economy”, in Relevant Year t-1, subject to the Authority’s power to determine otherwise.

~~3A.8~~ For the purposes of paragraph 3A.6 of this condition, TRU<sub>t</sub> is derived in accordance with the following formula:

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

~~3A.9~~ In the above formula for TRU<sub>t</sub>:

REV<sub>t-2</sub> means the amount (in 2009/10 prices), for Relevant Year t-2, of the combined value of all Relevant TO Special Condition revenue adjustments that are indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 3A.10 or 3A.11 of this condition.

PVF<sub>t</sub> means the present value adjustment term for Relevant Year t and will be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority in accordance with the Annual Iteration Process, and the expressions PVF<sub>t-1</sub> and PVF<sub>t-2</sub> will be interpreted accordingly.

~~3A.10~~ 3A.8 For purposes of paragraph 3A.96 of this condition, ~~subject to paragraph 3A.11,~~ REV<sub>t-2</sub> is derived in accordance with the following formula:

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

where:

<del>BR<sub>t-2</sub></del>	<del>means the Base Transmission Revenue in Relevant Year t-2 as derived in accordance with the formula set out in this Part C.</del>
RB <sub>t-2</sub>	means the business rate adjustment in Relevant Year t-2 as derived in accordance with Part B of Special Condition 3B.
LF <sub>t-2</sub>	means the licence fee adjustment in Relevant Year t-2 as derived in accordance with Part C of Special Condition 3B.
ITC <sub>t-2</sub>	means the inter-transmission system operator compensation mechanism adjustment in Relevant Year t-2 as derived in accordance with Part E of Special Condition 3B.
<del>TPD<sub>t-2</sub></del>	<del>means the temporary physical disconnection adjustment in Relevant Year t-2 as derived in accordance with Part D of Special Condition 3B.</del>
<del>RI<sub>t-2</sub></del>	<del>means the Reliability Incentive Adjustment in Relevant Year t-2 as derived in accordance with Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied).</del>
<del>SFI<sub>t-2</sub></del>	<del>means the revenue adjustment reflecting the licensee's performance in relation to its sulphur hexafluoride (SF<sub>6</sub>) gas emissions in Relevant Year t-2 as derived in accordance with Special Condition 3E (Incentive in Respect of Sulphur Hexafluoride (SF<sub>6</sub>) Gas Emissions).</del>
<del>IP<sub>TIRG</sub><sub>t-2</sub></del>	<del>means the annual preconstruction and contingency revenue allowance in Relevant Year t-2 and has the value given to it by Part 1 of Special Condition 3J.</del>
FTIRG <sub>t-2</sub>	means the annual construction revenue allowance in Relevant Year t-2 and has the value given to it by Part 1 of Special Condition 3J.

~~ETIRG<sub>t-2</sub> means the annual incentive revenue allowance in Relevant Year t-2 and has the value given to it by Part 4 of Special Condition 3J.~~

~~3A.11 For the purposes of paragraph 3A.9 of this condition, in Relevant Year 2014/15, REV<sub>t-2</sub> is derived in accordance with the following formula:~~

$$\text{REV}_{t-2} = \frac{\text{PR}_{t-2} + \text{TOInc}_{t-2} + \text{IPTIRG}_{t-2} + \text{FTIRG}_{t-2} + \text{ETIRG}_{t-2} + \text{CXIncrA}_{t-2}}{\text{RPIF}_{t-2} - \text{PF}_{t-2} - \text{RV}_{t-2} - \text{ITV}_{t-2}}$$

~~where:~~

~~PR<sub>t-2</sub> means, in respect of the Relevant Year commencing 1 April 2012, the Base Transmission Revenue as derived in accordance with Special Condition D2 (Restriction on Transmission Network Revenue) of this licence in the form in which it was in force at 31 March 2013.~~

~~TOInc<sub>t-2</sub> means, in respect of the Relevant Year commencing 1 April 2012, the revenue adjustments in respect of Transmission Investment Incentives Projects as derived in accordance with Special Condition D2 of this licence in the form in which it was in force at 31 March 2013.~~

~~IPTIRG<sub>t-2</sub> means, in respect of the Relevant Year commencing 1 April 2012, the annual preconstruction and contingency revenue allowance as derived in accordance with Special Condition D3 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation) of this licence in the form in which it was in force at 31 March 2013.~~

~~FTIRG<sub>t-2</sub> means, in respect of the Relevant Year commencing 1 April 2012, the annual construction revenue allowance as derived in accordance with Special Condition D3 of this licence in the form in which it was in force at 31 March 2013.~~



$ETIRG_{t-2}$	means, in respect of the Relevant Year commencing 1 April 2012, the annual incentive revenue allowance as derived in accordance with Special Condition D3 of this licence in the form in which it was in force at 31 March 2013.
$CxIncRA_{t-2}$	means, in respect of the Relevant Year commencing 1 April 2012, the capital expenditure incentive revenue adjustment as derived in accordance with Special Condition D9 (Capital Expenditure Incentive and Safety Net) of this licence in the form in which it was in force at 31 March 2013.
$PF_{t-2}$	means, in respect of the Relevant Year commencing 1 April 2012, the licence fee payments allowance as represented by the amount set out in Special Condition D4 (Pass Through Items) of this licence in the form in which it was in force at 31 March 2013.
$RV_{t-2}$	means, in respect of the Relevant Year commencing 1 April 2012, the non-domestic rate allowance as represented by the amount set out in Special Condition D4 (Restriction of transmission charges: Allowed pass-through items) of this licence in the form in which it was in force at 31 March 2013.
$ITV_{t-2}$	means, in respect of the Relevant Year commencing 1 April 2012, the inter-transmission system operator compensation scheme allowance as represented by the amount set out in Special Condition D4 of this licence in the form in which it was in force at 31 March 2013.

**Drafting Change:** Part D (Calculation of outputs incentive revenue adjustment (OIPt)) will not be used as the Stakeholder Satisfaction Output will only apply to NGET (TO) post-separation.

**Part D: Not Used Calculation of outputs incentive revenue adjustment (OIP<sub>t</sub>)**

~~3A.12~~ For the purposes of the Principal Formula, the amount of OIP<sub>t</sub> is derived in accordance with the following formula:

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

~~3A.13~~3A.9 In the above formula for OIP<sub>t</sub>:

<del>RI<sub>t</sub></del>	<del>means the Reliability Incentive Adjustment as derived in accordance with Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied).</del>
<del>SSO<sub>t</sub></del>	<del>means the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to its stakeholder satisfaction as derived in accordance with Special Condition 3D (Stakeholder Satisfaction Output).</del>
<del>SFI<sub>t</sub></del>	<del>means the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to its sulphur hexafluoride (SF<sub>6</sub>) gas emissions as derived in accordance with Special Condition 3E (Incentive in Respect of Sulphur Hexafluoride (SF<sub>6</sub>) Gas Emissions).</del>
<del>EDR<sub>t</sub></del>	<del>means the revenue adjustment made in Relevant Year t reflecting the licensee's performance under the Environmental Discretionary Reward Scheme as derived in accordance with Special Condition 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme).</del>

**Part E: Calculation of the correction term (K<sub>t</sub>)**

~~3A.14~~3A.10 For the purposes of the Principal Formula, subject to paragraph 3A.~~11~~15 and ~~3A.16~~, K<sub>t</sub> is derived in accordance with the following formula:

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

where:

TNR<sub>t-2</sub> means the Transmission Network Revenue as defined in Special Condition 1A (Definitions and interpretation) in respect of Relevant Year t-2.

TO<sub>t-2</sub> means the Maximum Revenue as derived in accordance with Part B of this condition in respect of Relevant Year t-2.

I<sub>t</sub> means the Average Specified Rate in Relevant Year t.

PR<sub>t</sub> means the interest rate adjustment in Relevant Year t as derived in accordance with the formula set out in Part F of this condition.

~~3A.15 For the Relevant Year commencing 1 April 2013, K<sub>t</sub> is derived in accordance with the following formula:~~

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

~~TNR<sub>t-1</sub> means the Transmission Network Revenue in respect of the Relevant Year commencing 1 April 2012 as defined in Special Condition D1 of this licence in the form in which it was in force at 31 March 2013.~~

~~TO<sub>t-1</sub> means the Maximum Revenue in respect of the Relevant Year commencing 1 April 2012 as derived in accordance with Special Condition D2 of this licence in the form in which it was in force at 31 March 2013.~~

~~I<sub>t</sub> means the Average Specified Rate in Relevant Year t.~~

~~PRO<sub>t</sub> means the interest rate adjustment in Relevant Year t as derived in accordance with the formula set out in Part F of this condition.~~

3A.163A.11 In the Relevant Years 2014/15-2019/20 and 2020/21 K<sub>t</sub> will have the value zero.

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

~~3A.17~~3A.12 For the purposes of Part E of this condition, the value of the interest rate adjustment  $PR_t$  is to be treated as follows:

- (a) if, in respect of Relevant Year t-2, Transmission Network Revenue exceeds 105.5 per cent of Maximum Revenue,  $PR_t$  will have the value of 4;
- (b) if, in respect of Relevant Year t-2, Transmission Network Revenue is less than 94.5 per cent of Maximum Revenue,  $PR_t$  will have the value of zero; and
- (c) in all other cases  $PR_t$  will have the value of 2.

~~3A.18~~ For the purposes of Part E of this condition, the value of the interest rate adjustment  $PRO_t$  is to be treated as follows:

- ~~(d)~~ if, in respect of Relevant Year t-1, Transmission Network Revenue exceeds 102.75 per cent of Maximum Revenue,  $PRO_t$  will have the value of 4; and
- ~~(e)~~ in all other cases  $PRO_t$  will have the value zero.

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

~~3A.19~~3A.13 Paragraph 3A. ~~1420~~ applies from 1 April 20~~22~~16.

~~3A.20~~3A.14 If, in respect of two successive Relevant Years t-2 and t-3, the licensee's Transmission Network Revenue in each of those Relevant Years exceeds 109.5 per cent of Maximum Revenue for those Relevant Years, the licensee:

- ~~(f)~~(d) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Relevant Year t-1; and
- ~~(g)~~(e) must not increase its Transmission Network Charges for Relevant Year t except and to the extent that the Authority has consented to such an increase.

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



National Grid Electricity System Operator Limited	Financing cost	⋮	⋮	⋮	⋮	⋮	⋮	[tbc]	[tbc]
	Parent company guarantee	⋮	⋮	⋮	⋮	⋮	⋮	[tbc]	[tbc]

⋮

## Special Condition 3B. Calculation of allowed pass-through items

### Introduction

3B.1 The purpose of this condition is to provide for the calculation of the term  $PT_t$  (the allowed pass-through items revenue adjustment) for the purposes of Part B of Special Condition 3A (Restriction of Transmission Network Revenue).

3B.2 The effect of the application of the  $PT_t$  term in Part B of Special Condition 3A is to ensure that the level of the licensee's Maximum Revenue derived in accordance with that condition reflects certain costs that can be passed through to users.

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

**Drafting Change:** The term 'TNGETt' has been added for NGET notified amounts. The term  $TPDt$  (Calculation of the temporary physical disconnection term) has been removed as this will be a pass through for NGET.

3B.3 For the purposes of Part B of Special Condition 3A, the  $PT_t$  term is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$PT_t = RB_t + LF_t + TPD_t + ITC_t + Term_t + TSP_t + TSH_t + \underline{TNGET_t} + TOFTO_t + OFET_t + TICF_t + TICP_t$$

3B.4 In the Principal Formula:

$RB_t$  means the business rate adjustment in Relevant Year t as derived in accordance with the formula set out in Part B of this condition.

$LF_t$  means the licence fee adjustment in Relevant Year t as derived in accordance with the formula set out in Part C of this condition.

~~$TPD_t$  means the temporary physical disconnection term in Relevant Year t as derived in accordance with Part D of this condition.~~

- ITC<sub>t</sub> means the adjustment in respect of participation in the inter-transmission system operator compensation mechanism in Relevant Year t as derived in accordance with the formula set out in Part E of this condition.
- Term<sub>t</sub> means the adjustment equal to the income received by the licensee in Relevant Year t in respect of users who reduce TEC or developer capacity (as defined in CUSC) or who terminate relevant bilateral agreements for connection and/or access rights to the National Electricity Transmission System (and is net of any amounts that are treated as capital contributions).
- TSP<sub>t</sub> means the amount notified to the licensee by SP Transmission Ltd or any successor company in relation to Relevant Year t pursuant to its electricity transmission licence.
- TSH<sub>t</sub> means the amount notified to the licensee by Scottish Hydro Electric Transmission Plc or any successor company in relation to Relevant Year t pursuant to its electricity transmission licence.
- fTNGET<sub>t</sub> means the amount notified to the licensee by National  
‡ Grid Electricity Transmission plc or any successor  
company in relation to Relevant Year t pursuant to its  
electricity transmission licence.
- TOFTO<sub>t</sub> means the total of the amounts notified to the licensee by each Offshore Transmission Owner in relation to Relevant Year t pursuant to their electricity transmission licences.
- OFET<sub>t</sub> means the amount equal to the payments made, in total, by the licensee to the electricity distributors with respect to charges for use of electricity distribution systems by offshore generating stations connected to those systems via Embedded Transmission Systems.



TICF<sub>t</sub> means the total of the amounts (whether of a positive or of a negative value) notified to the licensee by all Interconnector Owners in relation to Relevant Year t pursuant to their electricity interconnector licences.

TICP<sub>t</sub> means the total of the amounts notified to the licensee by each relevant electricity interconnector licensee in relation to Relevant Year t pursuant to the special conditions in their respective electricity interconnector licences

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

3B.5 For the purposes of the Principal Formula, subject to paragraph 3B.7 and 3B.8, RB<sub>t</sub> is derived in accordance with the following formula:

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

3B.6 In the above formula for RB<sub>t</sub>:

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

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

RPIA<sub>t-2</sub> has the value given to it by Part C of Special Condition 3A.

PVF<sub>t</sub> has the value given to it by Part C of Special Condition 3A.

RPIF<sub>t</sub> has the value given to it by Part C of Special Condition 3A.

3B.7 In the Relevant Years 2019/2013/14 and 2020/2114/15 RB<sub>t</sub> will have the value zero.

3B.8 In respect of any Relevant Year t-2 in which the revaluation by the Valuation Office Agency (in England and Wales) or the Scottish Assessors Association (in Scotland) of the assets of the licensee's Transmission Network for the purposes of setting Non-Domestic Rates came into effect, RB<sub>t</sub> will have the value of zero

in Relevant Year t and in each subsequent Relevant Year, unless the Authority has satisfied itself that the licensee has used reasonable endeavours to minimise the amount of the prescribed Non-Domestic Rates. If the Authority has so satisfied itself, it will direct that the formula set out in this Part B is to apply for the purposes of calculating the  $RB_t$  term in the specific Relevant Year and in each of the subsequent Relevant Years.

**Part C: Calculation of the licence fee adjustment term ( $LF_t$ )**

3B.9 For the purposes of the Principal Formula, subject to paragraph 3B.11 of this condition,  $LF_t$  is derived in accordance with the following formula:

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

3B.10 In the above formula for  $LF_t$ :

$LFA_{t-2}$  means the amount in respect of licence fee payments that is equal to the payments, in total, made by the licensee in Relevant Year t-2, in accordance with its obligations under standard condition A4 (Payments by the licensee to the Authority).

$LFE_{t-2}$  means the licence fee allowance in Relevant Year t-2, and is represented by the amount set out in Appendix 2 of this condition.

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

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

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

3B.11 In the Relevant Years 2019/2013/14 and 2020/2114/15- $LF_t$  will have the value zero.

**Part D: Not Used Calculation of the temporary physical disconnection term ( $TPD_t$ )**

~~3B.12 For the purposes of the Principal Formula, subject to paragraph 3B.14 of this condition,  $TPD_t$  is an amount derived in accordance with the following formula:~~

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

~~3B.13 In the above formula for  $TPD_t$ :~~

~~$TPA_{t-2}$  means the amount equal to the costs incurred by the licensee in relation to interruption payments made by the System Operator as part of its balancing services activity in the licensee's Transmission Area that are charged to the Transmission Licensee within each respective Relevant Year t-2.~~

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

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

~~$RPIF_t$  has the value given to it by Part C of Special Condition 3A.~~

~~3B.14 In the Relevant Year 2013/14  $TPD_t$  will have the value zero.~~

### **Part E: Calculation of the inter-transmission system operator compensation mechanism term ( $ITC_t$ )**

~~3B.15~~3B.12 For the purposes of the Principal Formula, subject to paragraph 3B.14 of this condition, the value of  $ITC_t$  is derived in accordancePart E with the following formula:

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

~~3B.16~~3B.13 In the above formula for  $ITC_t$ :

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

$ITA_{t-2}$  is the inter-transmission system operator compensation

mechanism allowance in Relevant Year t-2 and has the value set out in Appendix 3 of this condition.

RPIA<sub>t-2</sub> has the value given to it by Part C of Special Condition 3A.

PVF<sub>t</sub> has the value given to it by Part C of Special Condition 3A.

RPIF<sub>t</sub> has the value given to it by Part C of Special Condition 3A.

3B.173B.14 In the Relevant Years 2019/2013/14 and 2020/2114/15 ITC<sub>t</sub> will have the value zero.

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

(see paragraph 3B.6 relating to the RBE term)

Licensee	RBE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission System Operator Limited	73.453	66.884	66.882	66.883	66.882	66.882	66.882	66.882
NGSO	N/A	N/A	N/A	N/A	N/A	N/A	0	0

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

(see paragraph 3B.10 relating to the LFE term)

Licensee	LFE (£m)





Special Condition 3C. Reliability Incentive Adjustment in Respect of Energy Not Supplied Not Used

**Drafting Change:** 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied) will not be used for NGESO as it is a TO only obligation.

**Introduction**

~~3C.1—The purpose of this condition is to calculate the Reliability Incentive Adjustment term  $R_{It}$ , reflecting the licensee’s performance against a reliability incentive relating to energy not supplied, for the purposes of Part D of Special Condition 3A (Restriction of Transmission Network Revenue).~~

~~3C.2—The effect of the application of the Reliability Incentive Adjustment term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust the Output Incentive Revenue Adjustment ( $OIP_t$ ) term in Part D of that condition.~~

**~~Part A: Adjustment arising from reliability incentive in respect of energy not supplied ( $R_{It}$ )~~**

~~3C.3—The following formula applies for the purpose of deriving the value of the term  $R_{It}$  for each of the Relevant Years beginning on 1 April 2013 and 1 April 2014:~~

$$R_{It} = RILEG_t$$

~~where:~~

~~$RILEG_t$  for the Relevant Year beginning on 1 April 2013 is the adjustment reflecting the licensee’s performance in the Relevant Year beginning on 1 April 2012, and is calculated from the application of the provisions of Special Condition D5 (Incentive Payments) of this licence in the form in which that condition was in force at 31 March 2013. For the Relevant Year beginning on 1 April 2014, this term will have the value zero.~~

~~3C.4—The following formula (for the purposes of this condition, the “Principal Formula”) applies for the purpose of deriving the value of the term  $R_{It}$  for the Relevant Year beginning on 1 April 2015 and in each subsequent Relevant Year:~~

$$RI_t = \max \left[ \text{VOLL} \times (\text{ENST}_{t-2} - \text{ENSA}_{t-2}) \times \text{PTIS}_{t-2} - \text{RIDPA} \right. \\ \left. \times \frac{\text{BR}_{t-2} + \text{TIRG}_{t-2}}{\text{RPIA}_{t-2}} \right] \times \text{PVF}_{t-2} \times \text{PVF}_{t-1} \times \text{RPIF}_t$$

where:

**ENSA<sub>t-2</sub>** is the sum of the volumes of energy not supplied in all Incentivised Loss of Supply Events in Relevant Year t-2, as reported by the licensee in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

**ENST<sub>t-2</sub>** is the incentivised loss of supply volume target in Relevant Year t-2, and has the value of 316 MWh for each Relevant Year.

**VOLL** is the value of lost load which has the value £16,000 per MWh in (2009/10 prices).

**RIDPA** is the maximum downside percentage adjustment, and will be set at 3 per cent.

**Max (A,B)** means the greater of A and B.

**BR<sub>t-2</sub>** means the Base Transmission Revenue in Relevant Year t-2 and will be calculated in accordance with Part C of Special Condition 3A for that year.

**TIRG<sub>t-2</sub>** means the value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation).

**RPIA<sub>t-2</sub>** has the value given to it by Part C of Special Condition 3A.

**PTIS<sub>t-2</sub>** means the post-tax Totex Incentive Strength adjustment in Relevant Year t-2 as calculated in accordance with the formula in paragraph 3E.6 of Special Condition 3E (Incentive in Respect of Sulphur Hexafluoride (SF<sub>6</sub>) Gas Emissions).



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

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

**Part B: Methodology Statement in respect of reliability Incentive**

~~3C.5—The licensee must have in place and maintain a Reliability Incentive Methodology Statement approved by the Authority that sets out the methodology the licensee will use to calculate the volume of energy not supplied arising from each Incentivised Loss of Supply Event, having regard to the approaches taken by the other Transmission Licensees subject to a condition of equivalent effect to this condition, and to the approved statement prescribed by Standard Condition C17 (Transmission system security and quality of service) setting out criteria by which system availability, security and service quality of the National Electricity Transmission System may be measured.~~

~~3C.6—The licensee must use reasonable endeavours to apply the methodology that is set out in the Reliability Incentive Methodology Statement to calculate the volume of energy not supplied as a result of any Incentivised Loss of Supply Event.~~

~~3C.7—Before revising the Reliability Incentive Methodology Statement, the licensee must submit to the Authority a copy of the proposed revisions to that statement.~~

~~3C.8—Unless the Authority otherwise directs within one month after receiving any proposed revisions to the Reliability Incentive Methodology Statement, the revisions proposed by the licensee will take effect and the licensee must use reasonable endeavours to apply the methodology as revised when calculating the volume of energy not supplied as a result of any Incentivised Loss of Supply Event occurring after the end of that one month period.~~

~~3C.9—The Authority may direct that the value of ENST in any Relevant Year be changed as a result of any proposed revisions to the reliability incentive methodology in order to ensure as far as possible that the measured performance of the licensee against this incentive is the same as if the revision to that methodology had not taken place.~~

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

~~3C.10 Where the licensee considers that an event on the licensee's Transmission System that has caused electricity not to be supplied to a customer has been wholly or partially caused by an Exceptional Event, the licensee must:~~

- ~~(a) — notify the Authority of that event as soon as reasonably practicable but at the latest within 14 days of its occurrence; and~~
- ~~(b) — provide details of the volume of unsupplied energy that it considers resulted from the Exceptional Event and such further information, if any, as the Authority may require in relation to that event.~~

~~3C.11 Where the Authority is satisfied that the event notified to it under paragraph 3C.10 of this condition is an Exceptional Event the Authority will, by notice to the licensee, direct that, for the purpose of calculating the volume of energy not supplied for the relevant Incentivised Loss of Supply Event, the constituent data relevant to that event are to be adjusted as specified in that direction.~~

~~3C.12 Any adjustment directed by the Authority is to be based on the extent to which the Authority is satisfied that the licensee used reasonable endeavours both to prevent the event having the effect of interrupting supply and to mitigate its effect (both before and after it has occurred).~~

~~3C.13 A direction issued by the Authority under paragraph 3C.11 of this condition is of no effect unless the Authority has first:~~

- ~~(a) — given notice to the licensee that it proposes to issue the direction:
  - ~~(i) — specifying the terms of the proposed direction and the date on which it proposes that the direction to be issued should take effect;~~
  - ~~(ii) — setting out the Authority's reasons for proposing to issue the direction;~~
  - ~~(iii) — specifying the time (which will not be less than 28 days from the date of the notice) within which representations may be made;~~~~
- ~~and~~

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

### Special Condition 3D. Not Used Stakeholder Satisfaction Output

**Drafting Change:** 3D (Stakeholder Satisfaction Output) will not be used for NGENSO as it is a TO only obligation. Please see 3D in the Special Licence Conditions for NGET annex for further explanation on this drafting change.

#### **Introduction**

~~3D.1—The purpose of this condition is to set out the mechanism for calculating the value of the licensee's Stakeholder Satisfaction Output (SSO<sub>t</sub>) term.~~

~~3D.2—The effect of the application of the SSO<sub>t</sub> term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust the amount of the Output Incentive Revenue Adjustment (OIP<sub>t</sub>) term in Part D of that condition in order to reflect the licensee's performance in relation to its Stakeholder Satisfaction Output.~~

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

~~3D.3—For the purposes of Part D of Special Condition 3A, the value of the SSO<sub>t</sub> term is derived in accordance with the following formula:~~

$$\text{SSO}_t = (\text{SER}_{t-2} + \text{SSS}_{t-2}) \times \left(1 + \frac{I_{t-2}}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

~~where:~~

~~SSO<sub>t</sub> (the Stakeholder Satisfaction Output term) means the value of the licensee's Stakeholder Satisfaction Output term in Relevant Year t.~~

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

~~SSS<sub>t-2</sub> (the Stakeholder Satisfaction Survey term) means the adjustment that is required in respect of the licensee's performance in Relevant Year t-2 in relation to its customer and stakeholder satisfaction surveys in that~~

year, and is calculated in accordance with the provisions of Part D below.

$I_t$  means the Average Specified Rate in Relevant Year  $t$ .

3D.4—For Relevant Years 2013/14 and 2014/15,  $SSO_t$  will have the value zero.

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

3D.5—The maximum value of the SER term for each Relevant Year that can be determined by the Authority for the licensee is derived in accordance with the following formula:

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

3D.6—The value of the  $BR_{t-2}$  term for each Relevant Year is derived in accordance with the provisions of Part C of Special Condition 3A and the value of the  $TIRG_{t-2}$  term for each Relevant Year is derived in accordance with the provisions of Special Condition 3J (Transmission Investment for Renewable Generation).

3D.7—The licensee may apply to be awarded a Stakeholder Engagement Reward in respect of Relevant Year  $t-2$  in accordance with such procedures, timescales and minimum eligibility criteria as may be set out in the Stakeholder Engagement Reward Guidance that is published on Ofgem's website (and that may be modified from time to time in accordance with the provisions of Part C below).

3D.8—In addition to making provision for the matters mentioned in paragraph 3D.7, the Stakeholder Engagement Reward Guidance may also make provision for:

- (a) the appointment, by the Authority, of persons who will allocate the Stakeholder Engagement Reward; and
- (b) the manner and process by which such assessments will be made and any rewards will be made.

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

3D.9—The Stakeholder Engagement Reward Guidance (“the Guidance”) may be modified by the Authority by direction following the procedure set out in this Part C.

~~3D.10 A direction issued by the Authority under paragraph 3D.9 is of no effect unless the Authority has first:~~

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

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

~~3D.11 The  $SSS_{t-2}$  term (relating to the customer and stakeholder satisfaction surveys) is derived from the following formula:~~

$$\del{SSS_{t-2} = (BR_{t-2} + TIRG_{t-2}) \times [(CSSAF_{t-2} \times CSSPRO_{t-2}) + (SSSAF_{t-2} \times SSSPRO_{t-2})]}$$

~~where:~~

~~$BR_{t-2}$  means the amount of Base Transmission Revenue in Relevant Year  $t-2$  and will be calculated in accordance with Part C of Special Condition 3A.~~

~~$TIRG_{t-2}$  is derived in accordance with the provisions of Special Condition 3J (Transmission Investment for Renewable Generation).~~

~~$CSSAF_{t-2}$  is the revenue adjustment factor based on the licensee's performance against the customer satisfaction survey as described in Part E in the Relevant Year  $t-2$ , and is derived from the following formula:~~

~~————— If  $CSSP_{t-2} > CSST$ :~~

$$\del{CSSAF_{t-2} = \min\left(CSSUPA, CSSUPA \times \frac{[CSSP_{t-2} - CSST]}{[CSSCAP - CSST]}\right)}$$

————— If  $CSSP_{t-2} < CSST$ :

$$————— CSSAF_{t-2} = \max \left( CSSDPA, CSSDPA \times \frac{[CSST - CSSP_{t-2}]}{[CSST - CSSCOL]} \right)$$

Otherwise:

$$CSSAF_{t-2} = 0$$

————— where:

CSST ——— is the customer satisfaction survey target, and will have the value 6.9.

CSSCAP ——— is the customer satisfaction survey cap, and will have the value 8.5.

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

CSSCOL ——— is the customer satisfaction survey collar, and will have the value of 5.3.

CSSDPA ——— is the customer satisfaction maximum downside percentage adjustment, and will have the value 1%.

$CSSP_{t-2}$  ——— is the overall customer satisfaction survey result in the Relevant Year t-2;

$\min(A,B)$  ——— means the value equal to the lesser of A and B;

and

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

SSSAF<sub>t-2</sub> ——— is the revenue adjustment factor based on the licensee's performance against the stakeholder satisfaction survey as described in Part E in the Relevant Year t-2, and is derived from the following formula:

————— If  $SSSP_{t-2} > SSST$ :

$$————— SSSAF_{t-2} = \min \left( SSSUPA, SSSUPA \times \frac{[SSSP_{t-2} - SSST]}{[SSSCA - SSST]} \right)$$

————— If  $SSSP_{t-2} < SSST$ :

$$————— SSSAF_{t-2} = \max \left( SSSDPA, SSSDPA \times \frac{[SSST - SSSP_{t-2}]}{[SSST - SSSCOL]} \right)$$

Otherwise:

$$SSSAF_{t-2} = 0$$

where:

SSST is the stakeholder satisfaction survey target, and will have the value 7.4.

SSSCAP is the stakeholder satisfaction survey cap and will have the value 9.

SSSUPA is the stakeholder satisfaction maximum upside percentage adjustment and will have the value 1%.

SSSCOL is the stakeholder satisfaction survey collar and will have the value 5.8.

SSSDPA is the stakeholder satisfaction maximum downside percentage adjustment, and will have the value 1%.

SSSP<sub>t-2</sub> is the overall stakeholder satisfaction survey result in the Relevant Year t-2.

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

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

CSSPRO<sub>t-2</sub> is the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the Customer Satisfaction Survey in respect of Relevant Year t-2, which has the value as specified in the following table:

Relevant year t	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
CSSPRO <sub>t</sub>	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

SSSPRO<sub>t-2</sub> is the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the stakeholder satisfaction survey in respect of Relevant Year t-2, and is derived from the following formula:

In Relevant Years 2013/14, 2014/15 and 2015/16:

$$SSSPRO_t = 0$$

In Relevant Years 2016/17 and in all following Relevant Years:



$$\text{SSSPRO}_t = 1 - \text{CSSPRO}_t$$

### **Part E: Customer and Stakeholder Satisfaction Surveys**

- ~~3D.12 Unless otherwise agreed with the Authority, the licensee must carry out a survey at least once a year to assess customer and stakeholder satisfaction with its activities (the Customer and Stakeholder Satisfaction Surveys).~~
- ~~3D.13 The licensee may include such questions as it deems appropriate, subject to the inclusion of one question that asks for overall satisfaction to be rated on a scale of 1 to 10, when 1 is low and 10 is high.~~
- ~~3D.14 The licensee must report on the outcomes of this overall stakeholder satisfaction question in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).~~
- ~~3D.15 The licensee must share the outcomes from this survey with the Authority and licensees within whose licence a condition of like effect to this condition is in force and other interested parties at its own discretion.~~
- ~~3D.16 The Authority will review the licensee's approach to conducting the survey and reporting the outcome of the satisfaction question as required by paragraph 3D.14 of this condition and provide feedback to the licensee.~~

Special Condition 3E. Not Used Incentive in Respect of Sulphur Hexafluoride (SF<sub>6</sub>) Gas Emissions

**Drafting Change:** 3E (Incentive in Respect of Sulphur Hexafluoride (SF<sub>6</sub>) Gas Emissions) will not be used for NGENSO as it is a TO only obligation.

**Introduction**

3E.1—~~The purpose of this condition is to calculate the value of the Sulphur Hexafluoride Incentive term (SFI) to reflect the performance of the licensee in relation to actual sulphur hexafluoride (SF<sub>6</sub>) emissions from assets comprising part of the licensee's Transmission System compared to a baseline target of SF<sub>6</sub> emissions for Relevant Year t-2.~~

3E.2—~~The effect of the application of the Sulphur Hexafluoride Incentive term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust the Output Incentive Revenue Adjustment (OIP) term in Part D of that condition.~~

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

3E.3—~~For Relevant Years beginning on 1 April 2013 and 1 April 2014 the value of SFI is equal to zero. For each subsequent Relevant Year, the value of SFI is to be derived in accordance with the following formula:~~

$$SFI_t = (CTE_{t-2} - ALE_{t-2}) \times CF \times NTPC_{t-2} \times PTIS_{t-2} \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

where:

CTE<sub>t-2</sub> means the ~~calculated baseline target emissions of sulphur hexafluoride (SF<sub>6</sub>) gas in kilograms from assets comprising part of the licensee's Transmission System in Relevant Year t-2 as calculated in accordance with the formula set out in paragraph 3E.4 of this condition.~~

ALE<sub>t-2</sub> means the ~~actual SF<sub>6</sub> emissions in kilograms from assets comprising part of the licensee's Transmission System in Relevant Year t-2 and is calculated by the licensee in accordance with the methodology statement prepared by the licensee as described in Part B of this condition.~~

CF means the ~~adjustment factor to convert kilograms of SF<sub>6</sub> to tonnes of carbon dioxide equivalent emissions and has a~~

value of 23.9.

$NTPC_{t-2}$  means the relevant price per one tonne of non-traded carbon dioxide emissions in Relevant Year  $t-2$  as set out in Table 1 of this condition.

$PTIS_{t-2}$  means the Post-tax Totex Incentive Strength adjustment in Relevant Year  $t-2$  as calculated in accordance with the formula in paragraph 3E.6 of this condition.

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

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

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

£ per tonne non-traded CO <sub>2</sub> (2009/10 prices)	Relevant Year t							
	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21
	50	51	52	53	54	55	56	57

3E.4—For the purposes of paragraph 3E.3 the value of CTE in Relevant Year  $t-2$  is to be derived in accordance with the following such formula as is applicable:

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

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

where:

**BASE** means the actual leakage rate of SF<sub>6</sub> emissions from assets comprising the licensee's Transmission System for the Relevant Year 2012/13 converted into kilograms of SF<sub>6</sub>.

**ADD<sub>t-2</sub>** means the expected SF<sub>6</sub> emissions in kilograms from new assets containing SF<sub>6</sub> comprising part of the licensee's Transmission System in Relevant Year  $t-2$  and is to be

calculated in accordance with the methodology statement in respect of SF<sub>6</sub> gas leakage described in Part B of this condition and reported by the licensee in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

DSP<sub>t-2</sub> means the expected reduction in SF<sub>6</sub> emissions in kilograms from assets containing SF<sub>6</sub> decommissioned from service on the licensee's Transmission System in Relevant Year t-2 and is to be calculated in accordance with the methodology statement in respect of SF<sub>6</sub> gas leakage described in Part B of this condition and reported by the licensee in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

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

$$CTE_{t-2} = FYCTE_{t-3} + ADD_{t-2} - DSP_{t-2}$$

where:

FYCTE<sub>t-3</sub> means the baseline target emissions for Relevant Year t-3 that is adjusted so that an amount of ADD or DSP reported by the licensee which is calculated for only part of that year is substituted with the expected amount of leakage as if those assets comprise part of the licensee's Transmission System for a full year. This is to be calculated in accordance with the methodology statement in respect of SF<sub>6</sub> gas leakage described in Part B of this condition.

3E.5 The licensee must report annually on ALE, ADD and DSP in accordance with the Standard Condition B15.

3E.6 For the purposes of paragraph 3E.3 of this condition the following formula shall be used to calculate PTIS<sub>t-2</sub> for Relevant Years beginning on or after 1 April 2015:

$$PTIS_{t-2} = TIS / (1 - TR_{t-2})$$

where:

- TIS has the meaning Totex Incentive Strength Rate and has the value given in Part A of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments—Transmission Owner).
- $TR_{t-2}$  means the corporation tax rate that is applicable to Relevant Year,  $t-2$ .

### **Part B: Methodology statement in respect of SF<sub>6</sub> gas leakage**

- 3E.7—The licensee must submit to the Authority on or before 30 April 2013 (or such later date as the Authority may direct) a statement of methodology (“the statement”) that is consistent with best industry practice for determining actual and expected leakage of SF<sub>6</sub> gas from the assets forming the licensee's Transmission System.
- 3E.8—The statement must set out the methodology by which the licensee will determine the leakage of SF<sub>6</sub> gas from the assets forming the licensee's Transmission System for the purposes of determining ALE, ADD and DSP.
- 3E.9—Unless the Authority otherwise directs within two months of the date of submission of the statement by the licensee in accordance with paragraph 3E.7 of this condition, the licensee must use reasonable endeavours to apply the methodology set out in that statement.
- 3E.10—Before revising the methodology set out in the statement, the licensee must submit a copy of the proposed revisions to the Authority.
- 3E.11—Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 3E.10 of this condition, the revisions will take effect and the licensee must use reasonable endeavours to apply the methodology as revised.

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

- 3E.12—Where the licensee considers that an event on the licensee's Transmission System that causes leakage of SF<sub>6</sub> has been wholly or partly caused by an SF<sub>6</sub> Exceptional Event the licensee must:

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

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

~~3E.13 Where the Authority is satisfied that the event that causes leakage of SF<sub>6</sub> is an SF<sub>6</sub> Exceptional Event, the Authority may, by notice to the licensee, direct that the value of ALE in Relevant Year t-2 is to be adjusted as specified in that direction.~~

~~3E.14 The Authority's power to direct the value of any adjustment to ALE in Relevant Year t-2 under paragraph 3E.13 of this condition includes the power to modify the value of any proposed adjustment notified to the Authority by the licensee in that respect.~~

~~3E.15 Any adjustment directed under paragraph 3E.13 of this condition must take account of the extent to which the Authority is satisfied that the licensee had used reasonable endeavours to prevent the event from resulting in the leakage of SF<sub>6</sub> and to mitigate its effect (both before the event and after it occurred).~~

~~3E.16 A direction issued by the Authority under paragraph 3E.13 of this condition, is of no effect unless the Authority has first:~~

~~(a) — given notice to the licensee that it proposes to issue the direction:~~

~~(i) — specifying the terms of the direction and the date on which it proposes that the direction to be issued should take effect;~~

~~(ii) — setting out the Authority's reasons for proposing to issue the direction;~~

~~(iii) — specifying the time (which must not be less than 28 days from the date of the notice) within which representations may be made; and~~

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

~~3E.17 For the purposes of this condition an 'SF<sub>6</sub> Exceptional Event' means an event or circumstance that is beyond the reasonable control of the licensee and results~~

in, causes, and/or prohibits the timely prevention of the leakage of SF<sub>6</sub> (and includes but is not limited to) any event or circumstance where the risk of significant danger to the public requires the licensee to prioritise health and safety objectives over the reduction of leakage of SF<sub>6</sub> at a particular site).

Special Condition 3F. ~~Not Used~~ Adjustment in Respect of the Environmental Discretionary Reward Scheme

**Drafting Change:** 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme) will not be used for NGESO as it is a TO only obligation. Please see 3F in the Special Licence Conditions for NGET annex for further explanation on this drafting change.

**Introduction**

3F.1—The purpose of this condition is:

- ~~(a) to establish the Environmental Discretionary Reward (EDR) Scheme for the purpose of determining the value of an EDR<sub>t</sub> term; and~~
- ~~(a) to make provision for arrangements relating to administration, governance and revision of the EDR Scheme.~~

3F.2—The effect of the application of the EDR<sub>t</sub> term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust upwards the amount of the Output Incentive Revenue Adjustment (OIP<sub>t</sub>) term in Part D of that condition in order to reflect the licensee's performance in relation to the EDR Scheme in each Relevant Year.

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

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

3F.4—Under the EDR Scheme the Authority will determine and approve the EDR term for each Relevant Year *t* in accordance with Part B of this condition and subject to the relevant provisions of the EDR Scheme Guidance.

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

3F.5—The licensee may make a submission to be considered under the EDR Scheme. The annual submission requirements for the licensee and the process for



assessing a reward under the EDR Scheme are provided in the EDR Scheme Guidance issued by the Authority under Parts C and D of this condition.

3F.6—For Relevant Years beginning on 1 April 2013 and 1 April 2014 the value of  $EDR_t$  will equal zero.

3F.7—For each subsequent Relevant Year  $t$ , the value of  $EDR_t$  is derived in accordance with the following formula:

$$EDR_t = EDRO_{t-2} \times (1 + I_{t-2} / 100) \times (1 + I_{t-1} / 100)$$

—where:

$EDRO_{t-2}$ —means a positive adjustment (if any) that may be determined by the Authority pursuant to the provisions set out in the EDR Scheme Guidance for the licensee for Relevant Year  $t-2$ ; and

$I_t$ —means the Average Specified Rate in Relevant Year  $t$ .

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

3F.8—The EDR Scheme Guidance is a document published, and from time to time revised by the Authority in accordance with Part D of this condition.

3F.9—The EDR Scheme Guidance may, without limitation, make appropriate provision for or impose requirements in respect of:

(b)—the format of submission to be made by the licensee to the Authority in respect of the EDR Scheme, the activity areas to be covered, the type of information and evidence to be provided, and the format of the submission;

(c)—the Authority's process for assessing any submission made by the licensee, including assessment criteria, the scoring associated with the different performance areas and the appointment and role of any expert panel incorporated in the EDR Scheme process;

(d)—the process by which the Authority will determine the  $EDR_t$  term for Relevant Year  $t$  including any reward allocation rules in relation to the licensee's overall level of performance;

- (e) ~~the procedures by which the Authority will notify the licensee with respect to any direction in relation to the EDR<sub>t</sub> term; and~~
- (f) ~~any other matters relating to the administration and governance of the EDR Scheme which appear to the Authority to be appropriate.~~

~~3F.10 If the licensee makes a submission to the Authority for consideration under the EDR Scheme, the licensee must comply with the EDR Scheme Guidance as if it formed part of this condition.~~

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

~~3F.11 The EDR Scheme Guidance shall be established and may be modified by the Authority by direction.~~

~~3F.12 A direction issued by the Authority under paragraph 3F.11 of this condition is of no effect unless the Authority has first:~~

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

Special Condition 3G. Not Used

## Special Condition 3H. The Network Innovation Allowance

### Introduction

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

### Part A: Calculation of the NIA term

- 3H.4 For the purposes of Part B of Special Condition 3A, the NIA adjustment for the Relevant Year  $t$  is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$NIA_t = ANIA_t - NIAR_t$$

For the purposes of the Principal Formula:

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

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

$NIAR_t$  means an amount recovered by the licensee in relation to the Relevant Year  $t$  or a previous Relevant Year under the NIA which the Authority has determined, in accordance with provisions set out in paragraph 3H.8 of this condition and the NIA Governance Document, to be unrecoverable (see Part C below).

3H.5 Expenditure incurred by the licensee may only be recovered under the NIA if it is Allowable NIA Expenditure.

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

3H.6 For the purposes of the Principal Formula the amount of ANIA is derived from the following formula:

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

where:

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

ENIA<sub>t</sub> means the Eligible NIA Expenditure for Relevant Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

BPC<sub>t</sub> means the Eligible NIC Bid Preparation Costs for the Relevant Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with Standard Condition B15. Where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot exceed the amount calculated in accordance with this condition.

The value of BPC<sub>t</sub> for Relevant Years t = 2013/14 to 2017/18 is the lower of:

- a) £175,000 in total; or
- b) 5% of the amount applied for by the Licencee or the group where relevant under the Network Innovation Competition, as defined in Special Condition 3I (the Network Innovation Competition).

For Relevant Year 2018/19 and in subsequent Relevant Years BPC<sub>t</sub> will have the value zero

NIAV means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition).

**NGET**BR<sub>t</sub> means the Base Transmission Revenue in Relevant Year t, and is notified to the licensee by National Grid Electricity Transmission plc ("NGET") on or before 1 calendar week after 30<sup>th</sup> November of the relevant year-t and derived in accordance with Part B of Special Condition 3A of the **NGET licence**.

3H.7 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE<sub>t</sub>) that qualifies as Eligible NIA Expenditure in the Relevant Year t must not exceed the amount derived by the following formula:

$$NIAIE_t \leq Z \times ENIA_t$$

where:

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

Z Z has the value of 0.25, except insofar as the Authority consents otherwise.

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

3H.8 In any Relevant Year t, the Authority may set, by direction given to the licensee, an amount for NIAR<sub>t</sub> that will reduce the licensee's NIA revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

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

3H.9 The Authority will issue, and may from time to time revise, a document to be known as the NIA Governance Document, for purposes connected with the regulation, governance and administration of the NIA under this condition.

3H.10 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- ~~(g)~~(a) the eligibility criteria, which projects must meet, which the licensee confirms projects conform to before Eligible NIA Projects can be started;
- ~~(h)~~(b) the information that is to be published by the licensee before Eligible NIA Projects can be started;
- ~~(i)~~(c) the circumstances in which the licensee will require permission from the Authority before beginning an Eligible NIA Project;
- ~~(j)~~(d) the processes and procedures that will be in place for the assessment and approval (where necessary) of such projects described in paragraph 3H.10(c) of this condition;
- ~~(k)~~(e) arrangements for ensuring that relevant matters the licensee has learned from Eligible NIA Projects can be captured and disseminated by the licensee to other Transmission Licensees and holders of an electricity distribution licence;
- ~~(l)~~(f) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);
- ~~(m)~~(g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and
- ~~(n)~~(h) any other matters relating to the regulation, governance or administration of the NIA.

3H.11 Where provisions of the NIA Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the NIA Governance Document were part of this condition.

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

3H.12 Before issuing the NIA Governance Document under this condition, the Authority, by notice given to the licensee and all other electricity transmission licensees with a condition of similar effect to this condition in their licence, will:

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

3H.13 The Authority will consider any representations that are duly made and not withdrawn.

3H.14 The requirements of paragraphs 3H.12 and 3H.13 of this condition may be satisfied by action taken by the Authority before, as well as by action taken after, the coming into force of this condition.

3H.15 In paragraph 3H.12 of this condition "issuing the NIA Governance Document" includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

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

3H.16 Defined terms used in this condition and set out in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further clarification that might be set out in the NIA Governance Document in relation to such terms.

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

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



Licensee	NIA Percentage (%)
National Grid <del>System Operator</del> <del>Limited Electricity Transmission plc</del>	0.27

## Special Condition 3I. The Network Innovation Competition

### Introduction

- 3I.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (NIC) that will enable the Authority to determine the value of the Network Innovation Competition Funding (NICF) term that is to apply in Part B of Special Condition 3A (Restriction of Transmission Network Revenue) with respect to the funding of innovative low carbon or environmental projects.
- 3I.2 The effect of the application of the NICF term in Part B of Special Condition 3A is to adjust the calculation of the licensee's Maximum Revenue in order to fund investment in innovation under the NIC established pursuant to this condition.
- 3I.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

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

- 3I.4 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the licensee through its Transmission Network Charges pursuant to the NIC Funding Mechanism described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.
- 3I.5 The value of the NICF term that is to be incorporated into the Maximum Revenue in accordance with the provisions of Special Condition 3A in respect of any Relevant Year comprises the total of the allowed revenues of the licensee recovered under the NIC Funding Mechanism in that year.
- 3I.6 Accordingly, for the purposes of Part B of Special Condition 3A, the amount of the NIC adjustment in the NICF term in any Relevant Year is determined in accordance with Parts B to D below and subject to the relevant provisions of the NIC Governance Document.

### Part B: The NIC Funding Mechanism

- 3I.7 The NIC Funding Mechanism is the mechanism by which the licensee recovers the amount of authorised NIC Funding in any Relevant Year and apportions that

amount between the licensee and other Transmission Licensees and Electricity Distribution Licensees as appropriate in accordance with the NIC Governance Document.

- 31.8 NIC Funding is the total amount of funding authorised by the Authority for the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.

**Part C: The Funding Return Mechanism**

- 31.9 The Funding Return Mechanism provides for the recovery from the licensee and from other electricity Transmission Licensees or Electricity Distribution Licensees,, in each case to such extent (if any) as may be relevant, of:

- (a) Halted Project Revenues;
- (b) Disallowed Expenditure;
- (c) Returned Royalty Income; and
- (d) Returned Project Revenues.

- 31.10 The Funding Return is the total amount (in respect of the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees) of any amounts arising under paragraph 31.9 of this condition.

- 31.11 Halted Project Revenues are revenues received (whether by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

- 31.12 Disallowed Expenditure is revenue received (whether by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensee) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

- 31.13 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other

electricity Transmission Licensee or Electricity Distribution Licensee), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.

31.14 For the purposes of paragraph 31.13 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other Transmission Licensee or Electricity Distribution Licensee) that have not been otherwise remunerated through Transmission Network Charges, do not fall within the Statement of General Principle for Excluded Services set out in Part B of Special Condition 8B (Services treated as Excluded Services), or the NIC Funding Mechanism.

31.15 Returned Project Revenues are:

(a) revenues received (whether by the licensee or any other Electricity Transmission Licensee or Electricity Distribution Licensees) under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the project has been carried out in accordance with the applicable provisions of the NIC Governance Document and / or the terms of the relevant Project Direction; or

(b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensees) other than Returned Royalty Income, that the Authority determines are payable to customers.

31.16 The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee.

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

31.17 The NICF term is the amount for Relevant Year  $t$  that is to be recovered by the licensee on behalf of itself or other electricity Transmission Licensees and

Electricity Distribution Licensees, as determined by the Authority under paragraph 3I.16 in relation to:

- (d) the NIC Funding specified for that year; and
- (e) any Funding Return specified for that year.

3I.18 In each Relevant Year *t*, as provided for by the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees, will specify in accordance with the appropriate provisions set out in the NIC Governance Document:

- (f) the value of the NICF term for the licensee (being the amount, if any, to be recovered by the licensee in order to contribute to its own and other electricity Transmission Licensees' and Electricity Distribution Licensees' NIC Funding for that Relevant Year);
- (g) the net amounts that are to be transferred between the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Relevant Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and
- (h) the manner in which and the timescale over which the net amounts referred to in paragraph (b) are to be transferred.

3I.19 The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 3I.18 of this condition.

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

3I.20 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.

3I.21 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

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

31.22 Where provisions of the NIC Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the NIC Governance Document were part of this condition.

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

31.23 Before issuing the NIC Governance Document under this condition, the Authority, by notice given to the licensee and other electricity Transmission Licensees with a condition of similar effect to this condition in their licence, shall:

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

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

31.24 The Authority will consider any representations that are duly made and not withdrawn.

31.25 The requirements of paragraphs 31.23 and 31.24 of this condition may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

31.26 In paragraph 31.23 of this condition, "issuing the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

**Part G: Interpretation**

31.27 Defined terms used in this condition and set out in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further clarification that might be set out in the NIC Governance Document in relation to such terms.

Special Condition 3J. Not Used Transmission Investment for Renewable Generation

**Drafting Change:** 3J (Transmission Investment for Renewable Generation) will not be used for NGENSO as it is a TO only obligation.

**Part 1 – TIRG Revenue Adjustment Calculation**

3J.1—For each TIRG Relevant Year  $t$ ,  $TIRG_t$  will be calculated in accordance with the following formula:

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

where:—

$TIRG_t^i$ —means the annual revenue allowance in TIRG Relevant Year  $t$  for each transmission investment project  $i$  specified in Annex A to this condition.

3J.2—For each TIRG Relevant Year  $t$ , the annual revenue allowance for each transmission investment project  $i$  specified in Annex A will be calculated in accordance with the following formula:

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

where:

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

—means the annual pre-construction and contingency revenue allowance for the transmission investment project  $i$  for the TIRG Relevant Years  $t=p$  to  $t=1$  (where  $p \leq -1$ ) and will be calculated in accordance with paragraph 3J.3 of this condition.

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

—means the sum of one or more preconstruction and contingency revenue allowance adjustments for a TIRG Income Adjusting Event and each revenue allowance adjustment will be determined by the Authority in accordance with paragraph 3J.4 of this condition.



~~$FTIRG_t^i TIRG_t^i = IPTIRG_t^i + TIRGIncAd_t^i + FTIRG_t^i + ETIRG_t^i + ATIRG_t^i$~~  means the annual construction revenue allowance for the transmission investment project i for the TIRG Relevant Years t=0 to t=n and will be calculated in accordance with paragraph 3J.5 of this condition.

~~$ETIRG_t^i TIRG_t^i = IPTIRG_t^i + TIRGIncAd_t^i + FTIRG_t^i + ETIRG_t^i + ATIRG_t^i$~~  means the annual incentive revenue allowance for the transmission investment project i for the TIRG Relevant Years t=n+1 to t=n+5 and will be calculated in accordance with paragraph 3J.7; and

~~$ATIRG_t^i TIRG_t^i = IPTIRG_t^i + TIRGIncAd_t^i + FTIRG_t^i + ETIRG_t^i + ATIRG_t^i$~~  means the actual annual revenue allowance for the transmission investment project i for the TIRG Relevant Years t=n+6 to t=n+20 and will be determined by the Authority in accordance with paragraph 3J.9 of this condition.

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

~~3J.3 For the purposes of paragraph 3J.2 of this condition, the term  $IPTIRG_{\underline{t}}^i$  will be calculated in accordance with the following formula:~~

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

~~where:~~

~~$CFTIRG_{\underline{t}}^i$  means the forecast pre-construction and contingency costs for the transmission investment project i for TIRG Relevant Years t=p to t=1 (where  $p \leq 1$ ) and will have the value specified in Annex A to this condition for each TIRG Relevant Years t, and where no value is specified in Annex A to this condition for a TIRG Relevant Year t will have the value of zero; and~~

~~RPIF<sub>t</sub> has the value given to it by Part C of Special Condition 3A (Restriction of Transmission Network Revenue).~~

~~3J.4 For the purposes of this condition, a TIRG Income Adjusting Event means~~

~~(d) an event or circumstance occurring in the pre-construction period that the Authority is satisfied causes costs and/or expenses to be incurred or saved in relation to the transmission investment project i, where the Authority is satisfied that those costs and/or expenses:~~

~~(i) have resulted in, or are expected to result in, a material increase or decrease to the forecast pre-construction and contingency costs for the transmission investment project i for TIRG Relevant Years  $t=p$  to  $t-1$  (where  $p \leq -1$ ) (CFTIRG<sub>t</sub>);~~

~~(ii) have been, or are expected to be, efficiently incurred or saved; and~~

~~(iii) cannot otherwise be recovered under the TIRG revenue allowance provided under this condition.~~

~~(b) Where the licensee considers, and can provide supporting evidence that, a TIRG Income Adjusting Event has occurred in respect of the transmission investment project i, then the licensee must give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event no longer than 3 months after the end of the TIRG Relevant Year t in which that event has occurred (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph).~~

~~(c) A notice provided under subparagraph (b) must give particulars of:~~

~~(i) the TIRG Income Adjusting Event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG Income Adjusting Event;~~

~~(ii) the costs and/or expenses that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;~~

- ~~(iii) — the amount of any material increase or decrease in the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG Relevant Years  $t=p$  to  $t=1$  (where  $p \leq 1$ ) ( $CFTIRG_t^i$ ) that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of that increase or decrease has been calculated;~~
- ~~(iv) — the reasons why the licensee considers that the costs and/or expenses cannot otherwise be recovered under the TIRG revenue allowance provided by this condition;~~
- ~~(v) — the amount of any  $TIRGIncAd_t^i$  income adjustment allowance proposed as a consequence of that event and how this  $TIRGIncAd_t^i$  income adjustment allowance has been calculated; and~~
- ~~(vi) — any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.~~
  
- ~~(d) — Where the Authority receives a notice under subparagraph (b), the Authority will determine (after consultation with the licensee and such other persons it considers necessary):~~
  - ~~(i) — whether a TIRG Income Adjusting Event has occurred in respect of the transmission investment project  $i$ ; and~~
  - ~~(ii) — a  $TIRGIncAd_t^i$  income adjustment allowance in respect of the transmission investment project  $i$ .~~
  
- ~~(e) — Where the Authority determines under subparagraph (d) that a TIRG Income Adjusting Event has occurred in respect of the transmission investment project  $i$ , the  $TIRGIncAd_t^i$  income adjustment allowance in respect of the transmission investment project  $i$  determined by the Authority under subparagraph (d) will be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG Income Adjusting Event had not occurred, and in all other cases the  $TIRGIncAd_t^i$  income~~

adjustment allowance in respect of the transmission investment project  $i$  determined by the Authority under subparagraph (d) will be zero.

- (f) ~~Where the Authority makes a determination under this paragraph, the Authority will publish a notice stating the TIRGIncAd<sub>L</sub><sup>i</sup> income adjustment allowance for the transmission investment project  $i$  and the reasons for the determination.~~
- (g) ~~The Authority may revoke a determination made under this paragraph with the consent of the licensee.~~
- (h) ~~For the purposes of paragraph 3J.2, the term TIRGIncAd<sub>L</sub><sup>i</sup> will be the TIRGIncAd<sub>L</sub><sup>i</sup> income adjustment allowance for the transmission investment project  $i$  determined by the Authority under subparagraph (d), and where the Authority has not made a determination under subparagraph (d) will be zero.~~
- (i) ~~Where the licensee notifies the Authority of a TIRG Income Adjusting Event under subparagraph (b), the licensee must ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.~~

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

3J.5 ~~For the purposes of paragraph 3J.2, the term FTIRG<sub>L</sub><sup>i</sup> will be calculated in accordance with the following formula:~~

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

where:

**CCTIRG** ~~means the pre-tax cost of capital in real terms for the transmission investment project  $i$  for each TIRG Relevant Year  $t$  and for the purposes of this Special Condition will take the value of eight point eight per cent (8.8%);~~

~~FTIRGC<sub>L</sub><sup>i</sup> means the average asset value for the transmission investment project i for each of the TIRG Relevant Years t=0 to t=n and will be determined as follows:~~

- ~~(i) where the licensee has not been granted planning consent to build the transmission investment project i, FTIRGC<sub>L</sub><sup>i</sup> will be zero; and~~
- ~~(ii) where the licensee has been granted planning consent to build the transmission investment project i, FTIRGC<sub>L</sub><sup>i</sup> will have the value specified in Annex A to this condition for each TIRG Relevant Year t, and where no value is specified in Annex A to this condition for a TIRG Relevant Year t will have the value of zero;~~

~~AFFTIRG<sub>L</sub><sup>i</sup> means one or more adjustment to the average asset value for the transmission investment project i for the TIRG Relevant Years t=0 to t=n (FTIRGC<sub>L</sub><sup>i</sup>) as a result of a TIRG Asset Value Adjusting Event and each adjustment will be determined by the Authority in accordance with paragraph 3J.6 of this condition;~~

~~RPIF<sub>L</sub> has the value given to it by Part C of Special Condition 3A (Restriction of Transmission Network Revenue);~~

~~FTIRGDepn<sub>L</sub><sup>i</sup> means the depreciation value for the transmission investment project i for each of the TIRG Relevant Years t=0 to t=n and will be determined as follows:—~~

- ~~(i) where the licensee has not been granted planning consent to build the transmission investment project i, FTIRGDepn<sub>L</sub><sup>i</sup> will be zero; and~~

- (ii) ~~where the licensee has been granted planning consent to build the transmission investment project i,  $FTIRGDepn_{t,i}$  will have the value specified in Annex A to this condition for each TIRG Relevant Years t, and where no value is specified in Annex A to this condition for a TIRG Relevant Year t will have the value of zero;~~

~~$AFFTIRGDepn_{t,i}$  means one or more adjustment to the depreciation value for the transmission investment project i for the TIRG Relevant Years t=0 to t=n ( $FTIRGDepn_{t,i}$ ) as a result of a TIRG Asset Value Adjusting Event and each adjustment will be determined by the Authority in accordance with paragraph 3J.6 of this condition.~~

~~3J.6~~

- (a) ~~For the purposes of this condition, a TIRG Asset Value Adjusting Event means relevant additional preconstruction works or a relevant amendment to the scope of construction works that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the transmission investment project i, where the Authority is satisfied that those costs and expenses:~~

- (i) ~~are expected to result in a material increase or decrease to the average asset value for the transmission investment project i for the TIRG Relevant Years t=0 to t=n ( $FTIRGC_{t,i}$ );~~
- (ii) ~~are expected to be efficiently incurred or saved; and~~
- (iii) ~~cannot otherwise be recovered under the TIRG revenue allowance provided by this condition.~~

- (b) ~~For the purposes of subparagraph (a):~~

- (i) ~~“relevant additional preconstruction works” means preconstruction works expected to be carried out by the licensee~~

during the TIRG Relevant Years  $t=0$  to  $t=n$  as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project  $i$  (including but not limited to planning consent); and

(ii) ~~“relevant amendment to the scope of construction works” means an amendment to the scope of construction works that:~~

~~a. is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project  $i$  (including but not limited to planning consent); or~~

~~b. is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project  $i$  that are identified by the licensee during preconstruction work.~~

~~(c) Where the licensee considers, and can provide supporting evidence that, a TIRG Asset Value Adjusting Event has occurred in relation to the transmission investment project  $i$ , then the licensee must give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG Relevant Years  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).~~

~~(d) A notice provided under subparagraph (c) must be accompanied by a statement from independent technical advisors setting out the additional preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works / amended scope of construction works (as appropriate) and must give particulars of:~~

~~(i) the TIRG Asset Value Adjusting Event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG Asset Value Adjusting Event;~~

- ~~(ii) — the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;~~
  - ~~(iii) — the amount of any material increase or decrease in the average asset value for the transmission investment project i for TIRG Relevant Years t=0 to t=n (FTIRGC<sub>t</sub>) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;~~
  - ~~(iv) — the reasons why the licensee considers that the costs and/or expenses cannot otherwise be recovered under the TIRG revenue allowance provided by this Special Condition;~~
  - ~~(v) — the amount of any AFFTIRG<sub>L</sub><sup>i</sup> adjustment proposed as a consequence of that event and how this AFFTIRG<sub>L</sub><sup>i</sup> adjustment has been calculated;~~
  - ~~(vi) — the amount of any increase or decrease in the depreciation value for the transmission investment project i for the TIRG Relevant Years t=0 to t=n (FTIRGDepn<sub>L</sub><sup>i</sup>) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;~~
  - ~~(vii) — the amount of any AFFTIRGDepn<sub>L</sub><sup>i</sup> adjustment proposed as a consequence of that event and how this AFFTIRGDepn<sub>L</sub><sup>i</sup> adjustment has been calculated; and~~
  - ~~(viii) — any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.~~
- ~~(e) — Where the Authority receives a notice under subparagraph (c), the Authority will determine (after consultation with the licensee and such other persons it considers necessary):~~
- ~~(i) — whether a TIRG Asset Value Adjusting Event has occurred in respect of the transmission investment project i;~~



- ~~(ii) — where the Authority determines that a TIRG Asset Value Adjusting Event has occurred in respect of the transmission investment project i, whether the transmission investment project i will remain economically efficient as a consequence of that TIRG Asset Value Adjusting Event;~~
- ~~(iii) — a  $AFFTIRG_{\underline{L}}^i$  adjustment in respect of the transmission investment project i; and~~
- ~~(iv) — a  $AFFTIRGDepr_{\underline{L}}^i$  adjustment in respect of the transmission investment project i;~~
- ~~(f) — Where the Authority determines under subparagraph (e) that a TIRG Asset Value Adjusting Event has occurred in respect of the transmission investment project i and that the transmission investment project i will remain economically efficient as a consequence of that TIRG Asset Value Adjusting Event, the  $AFFTIRG_{\underline{L}}^i$  and  $AFFTIRGDepr_{\underline{L}}^i$  adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) will be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG Asset Value Adjusting Event had not occurred, and in all other cases the  $AFFTIRG_{\underline{L}}^i$  and  $AFFTIRGDepr_{\underline{L}}^i$  adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) will be zero;~~
- ~~(g) — Where the Authority makes a determination under this paragraph, the Authority will publish a notice stating the  $AFFTIRG_{\underline{L}}^i$  and  $AFFTIRGDepr_{\underline{L}}^i$  adjustments for the transmission investment project i and the reasons for the determination;~~
- ~~(h) — The Authority may revoke a determination made under this paragraph with the consent of the licensee;~~
- ~~(i) — For the purposes of paragraph 3J.5 of this condition, the terms  $AFFTIRG_{\underline{L}}^i$  and  $AFFTIRGDepr_{\underline{L}}^i$  will be the  $AFFTIRG_{\underline{L}}^i$  and~~

~~AFFTIRGDepn<sub>t</sub><sup>i</sup> adjustments for the transmission investment project i determined by the Authority under subparagraph (e), and where the Authority has not made a determination under subparagraph (e) will be zero; and~~

~~(j) Where the licensee notifies the Authority of a TIRG Asset Value Adjusting Event under subparagraph (c), the licensee must ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.~~

### **ETIRG<sub>t</sub>**

~~3J.7 For the purposes of paragraph 3J.2, the term ETIRG<sub>t</sub><sup>i</sup> will be calculated in accordance with the following formula:~~

$$\begin{aligned} \text{ETIRG}_t^i = & \left( \text{CCTIRG} \times \left( \text{ETIRGCC}_t^i \times \text{SAFRTIRG}_t^i \right) \times \text{RPIF}_t \right) \\ & + \left( \left( \text{Dep}_t^i \times \text{SAFRTIRG}_t^i \right) \times \text{RPIF}_t \right) \end{aligned}$$

~~where:~~

~~CCTIRG will have the meaning given in paragraph 3J.5 of this condition.~~

~~ETIRGCC<sub>t</sub><sup>i</sup> means the average asset value for the transmission investment project i for each of the TIRG Relevant Years t=n+1 to t=n+5 and will have the value specified in Annex A to this condition for each TIRG Relevant Year t, and where no value is specified in Annex A to this condition for a TIRG Relevant Year t will have the value of zero.~~

~~SAFRTIRG<sub>t</sub><sup>i</sup> means an adjustment factor to the average asset value for the transmission investment project i for each of the TIRG Relevant Years t=n+1 to t=n+5 (ETIRGCC<sub>t</sub><sup>i</sup>) and will have the value of 1 unless otherwise determined by the~~

Authority by TIRG Relevant Year  $t=n+1$  in accordance with the following formula:

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

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

$\text{SAFTIRG}^i$  \_\_\_\_\_ means the opening asset value for the transmission investment project  $i$  determined by the Authority by TIRG Relevant Year  $t=n+1$  in accordance with paragraph 3J.8 of this condition; and

$\text{ETIRGORAV}^i$  \_\_\_\_\_ means the opening regulated asset value for the transmission investment project  $i$  at TIRG Relevant Year  $t=n+1$  and will have the value specified in Annex A to this condition.

\_\_\_\_\_  $\text{RPIF}_t$  \_\_\_\_\_ has the value given to it by Part C of Special Condition 3A (Restriction of Transmission Network Revenue).

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

3J.8 \_\_\_\_\_

(a) \_\_\_\_\_ The Authority will determine (in consultation with the licensee and such other persons it considers necessary) the value of the term  $\text{SAFTIRG}^i$  with respect to the transmission investment project  $i$  by TIRG Relevant Year  $t=n+1$  where the Authority has received a post construction expenditure report and a post construction technical report in respect of the transmission investment project  $i$  in accordance with Part 2 of this condition.

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

- ~~(i) — whether the final aggregate transmission investment expenditure set out in the post construction expenditure report has been efficiently incurred;~~
  - ~~(ii) — the extent to which the licensee has complied with the output measures specified in Annex A to this condition for the transmission investment project i as set out in the post construction technical report;~~
  - ~~(iii) — whether an adjustment has been made to the average asset value for the transmission investment project i for the TIRG Relevant Years  $t=0$  to  $t=n$  under paragraph 3J.6 (AFFTIRG<sub>L</sub><sup>i</sup> adjustment);~~
  - ~~(iv) — whether an adjustment has been made to the depreciation value for the transmission investment project i for the TIRG Relevant Years  $t=0$  to  $t=n$  under paragraph 3J.6 (AFFTIRGDepn<sub>L</sub><sup>i</sup> adjustment); and~~
  - ~~(v) — any other information the Authority considers to be relevant to the determination.~~
- ~~(c) — Where the Authority makes a determination under this paragraph, the Authority will publish a notice stating the SAFTIRG<sub>L</sub><sup>i</sup> opening asset value for the transmission investment project i and the reasons for the determination.~~
- ~~(d) — The Authority may revoke a determination made under this paragraph with the consent of the licensee.~~

## **ATIRG**

3J.9 — For the purposes of paragraph 3J.2 of this condition the term ATIRG<sub>L</sub><sup>i</sup> will be determined by the Authority (in consultation with the licensee and such other persons the Authority considers necessary) by TIRG Relevant Year  $t=n+5$  in accordance with the principle that efficiently incurred costs will be recoverable by the licensee.

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

~~3J.10 For each transmission investment project  $i$  specified in Annex A to this condition, the licensee must provide the Authority with the following:~~

~~(a) during or prior to TIRG Relevant Year  $t=0$ , a preconstruction technical report, accompanied by a statement from independent technical advisers, setting out:~~

~~(i) the  $TIRG_{t=0}$  output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project  $i$ ; and~~

~~(ii) the  $TIRG_{t=n}$  forecast output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project  $i$ ;~~

~~(b) not later than three months after the end of each of the TIRG Relevant Years  $t=p$  to  $t=0$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a preconstruction expenditure report, accompanied by an auditor's statement, setting out an itemised report of the preconstruction expenditure incurred for the transmission investment project  $i$  during that TIRG Relevant Year  $t$ ;~~

~~(c) not later than three months after the end of each of the TIRG Relevant Years  $t=1$  to  $t=n$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a construction expenditure report accompanied by an auditor's statement, setting out an itemised report of the construction expenditure incurred for the transmission investment project  $i$  during that TIRG Relevant Year  $t$ ; and~~

~~(d) not later than three months after the end of TIRG Relevant Year  $t=n$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):~~

~~(i) a post construction expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission~~

investment project  $i$ , assessed against the average asset value for the transmission investment project  $i$  for TIRG Relevant Years  $t=0$  to  $t=n$  ( $FTIRGC_t$ ); and

- (ii) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project  $i$  and the extent to which the transmission investment project  $i$  complies with the output measures specified in Annex A to this condition.

~~3J.11 The Authority may require the licensee to provide it with such information in such form and within such time as it may reasonably request which is, in the Authority's opinion, necessary in order to carry out any of its functions under this condition.~~

~~3J.12 The output measures specified in Annex A to this condition may be amended in accordance with this paragraph.~~

- (e) For the purposes of this condition, an Output Measures Adjusting Event means a relevant amendment to the scope of the construction works (as defined in paragraph 3J.6(b)(ii) to this condition) which the Authority is satisfied is expected to cause a material change in the output measures specified in Annex A to this condition for the transmission investment project  $i$ .
- (f) Where the licensee considers, and can provide supporting evidence that, an Output Measures Adjusting Event has occurred in relation to the transmission investment project  $i$ , then the licensee must give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG Relevant Year  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (g) A notice provided under subparagraph (c) must be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and must give particulars of:

- ~~(i) — the Output Measures Adjusting Event to which the notice relates and the reason(s) why the licensee considers that event to be an output measures adjusting event;~~
- ~~(ii) — output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and~~
- ~~(iii) — any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.~~

~~(d) — Where the Authority receives a notice under subparagraph (c), the Authority will determine (after consultation with the licensee and such other persons it considers necessary):~~

- ~~(i) — whether an Output Measures Adjusting Event has occurred in respect of the transmission investment project i; and~~
- ~~(ii) — where the Authority determines that an Output Measures Adjusting Event has occurred in respect of the transmission investment project i, an output measures adjustment in respect of the transmission investment project.~~

~~(e) — Where the Authority makes a determination under this paragraph, the Authority will publish a notice stating the output measures adjustment for the transmission investment project i and the reasons for the determination.~~

~~(f) — The Authority may revoke a determination made under this paragraph with the consent of the licensee.~~

**Annex A to Special Condition 3J Supplementary Provisions**

**National Grid**

**England – Scotland Interconnection**

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

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

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



**Post construction revenue:**

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

**Output measures:**

**East coast interconnection**

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

- (h) — tee point to Scottish border (400kV circuit) —
- (i) — tee point to Stella West 400kV (400kV circuit)
- (j) — tee point to Blyth 275kV (400kV circuit, and two 400/275kV transformers)

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

- (k) — line A in series with (B' paralleled with C), where:—
- (l) — B' is line B in series with the existing 4 400/275kV transformers at Stella West. —

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

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

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

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

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

#### West coast interconnection

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

### **England-Scotland interconnection— reactive compensation**

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

## Special Condition 3K. Allowances in respect of a Security Period

### Introduction

3K.1 The purpose of this condition is to set out the process for the licensee to recover Allowed Security Costs in the event of a Security Period.

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

3K.2 At any time during a Security Period, the licensee may give notice in writing to the Authority suspending, with effect from the date of receipt of the notice by the Authority, application of the Relevant ~~TO~~ Special Conditions ~~or Relevant SO Special Conditions~~ as may be specified in the notice, for the remaining duration of the Security Period.

3K.3 At any time during a Security Period, the Authority may (having regard to its duties) by means of a direction:

- (a) suspend or modify for the remaining duration of the Security Period the Relevant ~~TO~~ Special Conditions ~~or Relevant SO Special Conditions~~ or any part or parts thereof; or
- (b) introduce for the remaining duration of the Security Period new Special Conditions;

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

3K.4 Subject to paragraphs 3K.5 and 3K.7 of this condition, the licensee is entitled in any Relevant Year to recover an aggregate amount equal to its Allowed Security Costs attributable to the provision of Transmission Network Services in that year or (in so far as not previously recovered) any previous year, by means of

appropriate equitable increases on all of the charges made by the licensee in the course of the provision of Transmission Network Services.

3K.5 Paragraph 3K.4 of this condition will not apply in so far as such Allowed Security Costs:

- (a) were otherwise recovered by the licensee; or
- (b) were taken into account by the Authority in setting the Special Conditions by means of a direction issued under paragraph 3K.3 of this condition.

3K.6 Following the end of each Relevant Year the licensee must provide to the Authority details in respect of that Relevant Year of:

- (a) the licensee's estimate of Allowed Security Costs;
- (b) the aggregate amounts charged under paragraph 3K.4 of this condition on account of the licensee's Allowed Security Costs; and
- (c) the basis and calculations underlying the increases in charges made by the licensee in its provision of Transmission Network Services together with an explanation of the basis of attribution of Allowed Security Costs to the provision of Transmission Network Services.

3K.7 Where the Authority is satisfied that the licensee has recovered amounts in excess of the Allowed Security Costs attributable to the provision of Transmission Network Services, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers in receipt of Transmission Network Services for the excess amounts charged to them, and the licensee must comply with any directions so issued provided that if the excess amounts relate to Allowed Security Costs paid to any authorised electricity operator, the licensee is not be obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator.

3K.8 No amounts charged by the licensee under this condition (whether or not subsequently required to be reimbursed) will be taken into account for the

purpose of applying the provisions of Special Condition 3A (Restriction of Transmission Network Revenue).

~~Special Condition 3L. Not Used Pre-construction Engineering Outputs for prospective Strategic Wider Works~~

**Drafting Change:** 3L (Pre-construction Engineering Outputs for prospective Strategic Wider Works) will not be used for NGENSO as it is a TO only obligation.

**Introduction**

~~3L.1. The purpose of this condition is to specify the baseline expenditure for Pre-construction Engineering (PE) Outputs the licensee may deliver during the Price Control Period.~~

**Part A: Baseline expenditure for Pre-construction Engineering Outputs**

~~3L.2. PE Outputs are the deliverables from Pre-construction Engineering works the licensee has undertaken during the Price Control Period in order to develop detailed delivery plans for a prospective Strategic Wider Works (SWW) Output which the licensee may propose to deliver and which the Authority has provision to assess and determine under Special Condition 61 (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and the Assessment of Allowed Expenditure).~~

~~3L.3. Table 1 below sets out the amount of baseline expenditure for the licensee to deliver economical and efficient PE Outputs in relation to the specified prospective SWW.~~

**Table 1: Baseline expenditure for Pre-construction Engineering Outputs**

<del>Prospective Strategic Wider Works</del>	<del>Baseline expenditure £m (2009/10 prices)</del>
<del>Eastern HVDC (additional transfer capability across multiple boundaries in northern England)</del>	<del>19.110</del>
<del>Wylfa – Pembroke HVDC (additional boundary transfer capability in northern Wales)</del>	<del>26.894</del>

~~3L.4. The baseline expenditure figures set out in Table 1 of this condition have been reflected in the licensee's Opening Base Revenue Allowance set out against the~~

licensee's name in Appendix 1 to Special Condition 3A (Restriction of Transmission Network Revenue).

~~3L.5. The licensee must report annually to the Authority on progress in delivering the PE Outputs for the prospective SWW set out in Table 1 of this condition and actual expenditure incurred in accordance with the requirements of Standard Condition B15 (Regulatory Instructions and Guidance).~~

#### **Part B: Substitution of PE Outputs**

~~3L.6. This Part provides for an Output Substitution (OS) to have effect in relation to PE Outputs specified in Part A of this condition.~~

~~3L.7. For the purposes of this condition, an OS arises where the Authority is satisfied that:~~

~~(c) there has been a significant change in the future outlook for the type, location and timing of generation connections and/or demand requirements compared to the planning scenarios at the outset of the Price Control Period; and/or~~

~~(d) that it is no longer economical and efficient for the licensee to deliver PE Outputs for one or more of the prospective SWW in Table 1 of this condition such that the PE Output should be deferred indefinitely or an alternative PE Output is required instead.~~

#### **Part C: Assessment of a PE Output Substitution**

~~3L.8. This Part C sets out a procedure that is to be applied for the purposes of enabling the Authority:~~

~~(e) to assess whether a PE Output specified in Part A of this condition requires an OS (within the meaning of Part B); and, if so,~~

~~(f) to approve the OS.~~

#### **(i) Licensee's notice to the Authority**

~~3L.9. Where the licensee considers that there has been a significant change in the future outlook for generation connections or demand requirements and that to deliver a PE Output for a prospective SWW in Table 1 of Part A of this condition~~



is no longer economical and efficient the licensee must give notice to the Authority as soon as is reasonably practicable.

~~3L.10. A notice under paragraph 3L.9 of this condition must include:~~

- ~~(g) — the reasons for the request, along with relevant supporting evidence to justify the OS as being economical and efficient;~~
- ~~(h) — a description of any alternative PE Output the licensee proposes to deliver instead and the prospective SWW to which the PE Output relates; and~~
- ~~(i) — an estimate of the efficient costs of any alternative PE Output.~~

~~3L.11. The notice must also contain or be accompanied by:~~

- ~~(j) — a statement about whether the OS proposed by the licensee has any implications for other PE Outputs specified in Part A of this condition; and~~
- ~~(k) — any other analysis or information that the licensee considers relevant to the Authority's assessment of the matter.~~

~~(ii) — **Determination by the Authority**~~

~~3L.12. Where the Authority receives notice from the licensee under paragraph 3L.9 of this condition, it will determine:~~

- ~~(l) — whether an OS for a PE Output specified in Part A of this condition is justified as being economical and efficient; and~~
- ~~(m) — the adjustment that is to be given effect through a modification under Part D of this condition in relation to the specified output.~~

~~(iii) — **Revocation**~~

~~3L.13. The Authority may, with the consent of the licensee, revoke a determination made under paragraph 3L.12 of this condition.~~

~~**Part D: Modification to amend the details of PE Outputs**~~

~~3L.14. The Authority may direct modifications to Table 1 in Part A of this condition in order to amend details of a PE Output in accordance with the provisions of this Part D.~~

~~3L.15. The reason for modifying details of outputs referred to in paragraph 3L.14 of this condition will arise from an OS defined in Part B and determined by the Authority in accordance with Part C of this condition.~~

~~3L.16. A direction issued by the Authority under paragraph 3L.14 of this condition is of no effect unless the Authority has first:~~

~~(a) — given notice to interested parties that it proposes to issue a direction under paragraph 3L.14 of this condition:~~

~~specifying the date on which it proposes that the direction should take effect;~~

~~specifying, where appropriate, any PE Output Substitutions that have been determined in accordance with Part C of this condition; and~~

~~specifying the time (which must not be less than a period of 28 days) within which representations concerning the proposed direction may be made; and~~

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

#### **Part E: Ex post adjustments where PE Outputs have not been delivered**

~~3L.17. In the event the licensee does not deliver or only partially delivers a PE Output for a prospective SWW set out in Part A of this condition by the end of the Price Control Period, the Authority may adjust baseline expenditure in relation to the PE Output to ensure only efficiently incurred costs are recovered.~~

## Chapter 4: System Operator – Revenue Restriction

**Drafting Change:** Chapter 4 will apply to the NGESO with no changes to the current drafting, with the exception of references to NGET which will need to be updated to refer to NGESO. We have therefore not included the entirety of Chapter 4 drafting in this annex.

All subsequent changes to Chapter 4 that occur prior to the licence taking legal effect for NGESO will need to be captured, including changes that we are intending to make to the SO incentives regime for 2018-21.

### 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 and its additional internal costs associated with preparing for the performance of EMR functions; 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 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 calculated using the following formula (in this condition, the "Principal Formula"):

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

4A.4 In the Principal Formula:

$SO_t$  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.

**Drafting Change:** ET1 continues to apply as a reference to the Price Control Financial Instruments as there remains a single PCFM which contains both NGET and the SO revenue calculations. This model will remain unchanged for the remainder of RIIO-T1, including the post-separation period.

References to MOD have been removed as this refers to NGET. NGESO does not have a MOD value.

**Note:** ~~Going forward, NGET and NGESO will each~~For the remainder of the RIIO-T1 period, National Grid may provide ~~require~~ a single representative at the ET1 Price Control Financial Model Working Group. ~~However, on a case-by-case basis, Ofgem may request~~ ~~Previously, there has been a single NGET~~separate representatives ~~covering both of the~~ TO and SO.

## Special Condition 5A. Governance of ET1 Price Control Financial Instruments

### Introduction

5A.1 The purpose of this condition is to establish a change control framework for each of the following ET1 Price Control Financial Instruments, namely:

- (a) the ET1 Price Control Financial Handbook, which contains the ET1 Price Control Financial Methodologies; and
- (b) the ET1 Price Control Financial Model.

5A.2 Each of the ET1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 5A.3) may only be modified by the Authority in accordance with the provisions of Parts A and B below.

5A.3 Parts A and B are without prejudice to the powers of the Authority to modify any part of this condition (including any ET1 Price Control Financial Instrument) under sections 11A and 11B of the Act.

### Part A: Assessment of the likely impact of an intended modification

5A.4 Before initiating any modification of an ET1 Price Control Financial Instrument, the Authority must assess whether that modification would be likely to have a significant impact on any of the following persons:

- a) the licensee;

- b) any other electricity Transmission Licensee in whose licence a condition equivalent to this one has effect;
- c) any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
- d) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.

5A.5 In making the assessment required by paragraph 5A.4, the Authority will:

- a) have particular regard to any impact which an intended modification would be likely to have on any component of the licensee's allowed revenues or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and
- b) in respect of modifications to the ET1 Price Control Financial Model, have regard to any views expressed by the ET1 Price Control Financial Model Working Group.

5A.6 For the purposes of paragraph 5A.4, it is to be presumed (subject to paragraph 5A.7) that a modification which serves to correct a manifest error contained in an ET1 Price Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.

5A.7 The presumption established by paragraph 5A.6 is without prejudice to the licensee's right under paragraph 5A.13 to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 5A.4 or 5A.5(a).

**Part B: Circumstances in which a modification may (and may not) be made**

5A.8 If, having carried out the required assessment under Part A above, the Authority considers that an intended modification of an ET1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 5A.4, it may modify that instrument in accordance with paragraphs 5A.9 to 5A.12 below.

5A.9 Before making any modification of an ET1 Price Control Financial Instrument under this Part B, the Authority will give the licensee and all electricity Transmission Licensees in whose licence a condition equivalent to this one has effect a notice that:

- a) sets out the proposed modification and the date from which the Authority proposes that it should have effect;
- b) explains why in the Authority's opinion the modification is necessary;
- c) sets out the Authority's view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 5A.4; and
- d) specifies a period of at least 14 days from the date of the notice within which any representations with respect to the proposal may be made.

5A.10 The Authority will publish any notice issued under paragraph 5A.9 on its website.

5A.11 The Authority will consider any representations that are duly made and not withdrawn before deciding whether to proceed with the modification under this Part B.

5A.12 Following issue of the notice referred to in paragraph 5A.9 of this condition and consideration of representations referred to in paragraph 5A.11 of this condition, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism by which that date is to be determined).

5A.13 If the licensee demonstrates in representations made under paragraph 5A.9(d) that it reasonably considers that the proposed modification would be likely to have a significant impact of the type referred to in paragraph 5A.4 or 5A.5(a), the Authority may not make the modification under this Part B.

### **Part C: Availability and updating of ET1 Price Control Financial Instruments**

- 5A.14 This Part C has effect in relation to the publication and availability of the ET1 Price Control Financial Handbook, including the constituent ET1 Price Control Financial Methodologies and the ET1 Price Control Financial Model.
- 5A.15 The Authority will ensure that any modifications of the ET1 Price Control Financial Handbook, including the constituent ET1 Price Control Financial Methodologies, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Handbook maintained on the Authority's website.
- 5A.16 The Authority will ensure that any modifications of the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Model maintained on the Authority's Website.
- 5A.17 Without limiting the general effect of paragraph 5A.16, the Authority will by not later than 30 November in each Relevant Year t-1:
- a) publish on its website, in Microsoft Excel ® format, the version of the ET1 Price Control Financial Model that will be used to determine the value of the term ~~MOD and~~ SOMOD with respect to Relevant Year t for the purposes of ~~Special Condition 3A and~~ Special Condition 4A;
  - b) ensure that the electronic name of the file is "ET1 PCFM" followed by "November 20XX" where 20XX represents the calendar year containing the month of November in Relevant Year t-1;
  - c) ensure that the words "ET1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November" followed by the Relevant Year t-1 expressed in the format 20XX/XX are included as text within the file itself; and
  - d) publish an up-to-date schedule of any modifications that have been made to the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.

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



5A.18 This condition should be read and construed in conjunction with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

## Special Condition 5B. Annual Iteration Process for the ET1 Price Control Financial Model Introduction

- 5B.1 The purpose of this condition is to set out the steps of the Annual Iteration Process, that the Authority will, subject to paragraph 5B.2, carry out in each Relevant Year t-1, in relation to the ET1 Price Control Financial Model in order to determine the values of the terms ~~MOD and~~ SOMOD for Relevant Year t, for the purposes of the formulae that ~~is~~ are specified in ~~Special Condition 3A (Restriction of Transmission Network Revenue) and~~ Special Condition 4A (Restriction of System Operator Internal Revenue).
- 5B.2 The last Relevant Year in which there will be an Annual Iteration Process for the ET1 Price Control Financial Model is Relevant Year 2019/20 for the purpose of determining the values of the terms ~~MOD and~~ SOMOD for Relevant Year 2020/21.
- 5B.3 The Annual Iteration Process will consist of, and will be carried out by the Authority in accordance with, the steps set out in Part A below, in a manner that is in accordance with the procedures set out in chapter 1 of the ET1 Price Control Financial Handbook.
- 5B.4 The outcome of the Annual Iteration Process with respect to the value of the terms ~~MOD<sub>t</sub> and~~ SOMOD<sub>t</sub> will be notified to the licensee in accordance with Part B of this condition.

**Drafting Change:** As we will not be separating the SO and TO PCFMs, there will remain a link between the TO's MOD and the SO's SOMOD calculations. This means that one cannot be calculated independently of the other – i.e. both TO and SO inputs are required to generate the TO's MOD and the SO's MOD terms.

Para 5B.13 implies that the SOMOD (or an interim SOMOD) can be calculated with only the licensee inputs. Therefore the PCFM needs to be updated for NGET Special Condition 6 inputs and NGESO Special Condition 7 inputs in order to calculate SOMOD. The reference to Special Condition 6 has been retained, and where referring to Special Condition 6 it should be noted that this is an NGET licence term.

### Part A: Steps comprising the Annual Iteration Process

5B.5 The Authority will save a record copy of the ET1 Price Control Financial Model in the form, and with the content it has before any of the steps of the Annual Iteration Process set out below are commenced.

5B.6 Step 1: The Authority will make revisions to PCFM Variable Values where and to the extent required in relation to adjustments for the licensee under:

- a) Special Condition 6A (Legacy price control adjustments – Transmission Owner) ~~f~~of the Transmission Licence held by National Grid Electricity Transmission plc and/or Special Condition 7A (Legacy price control adjustments – System Operator);
- b) Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) ~~f~~of the Transmission Licence held by National Grid Electricity Transmission plc and/or Special Condition 7B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator);
- c) Special Condition 6D (Specified financial adjustments – Transmission Owner) ~~f~~of the Transmission Licence held by National Grid Electricity Transmission plc and/or Special Condition 7C (Specified financial adjustments – System Operator);
- d) Special Condition 6E (The Innovation Roll-out Mechanism) ~~f~~of the Transmission Licence held by National Grid Electricity Transmission plc;
- e) Special Condition 6F (Baseline Generation Connection Outputs and Generation Connections volume driver) ~~f~~of the Transmission Licence held by National Grid Electricity Transmission plc;
- f) Special Condition 6G (Mitigating the impact of Pre-existing ~~Transmission Infrastructure on the visual amenity of Designated Areas~~) ~~f~~of the Transmission Licence held by National Grid Electricity Transmission plc;
- g) Special Condition 6H (Arrangements for the recovery of uncertain costs) ~~f~~of the Transmission Licence held by National Grid Electricity

Transmission plc] and/or Special Condition 7D (Arrangements for the recovery of SO uncertain costs);

- h) Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) of the Transmission Licence held by National Grid Electricity Transmission plc;
- i) Special Condition 6J (Allowed Expenditure for Incremental Wider Works) of the Transmission Licence held by National Grid Electricity Transmission plc;
- j) Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver) of the Transmission Licence held by National Grid Electricity Transmission plc; and
- k) Special Condition 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) of the Transmission Licence held by National Grid Electricity Transmission plc.

5B.7 Step 2: The Authority will cause the ET1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the PCFM Variable Values Table(s) for the licensee, where and to the extent required.

5B.8 Step 3: The Authority will identify and record the values of the terms ~~MOD<sub>t</sub>~~ and SOMOD<sub>t</sub> for the licensee, calculated as a result of Step 2 and shown as an outputs of the ET1 Price Control Financial Model, including the effects of any revised PCFM Variable Values which, for the avoidance of doubt, will not have any retrospective effect on any previously directed value of the term ~~MOD~~ or SOMOD.

5B.9 Step 4: The Authority will give a direction to the licensee, in accordance with Part B of this condition, setting out the values for the terms ~~MOD<sub>t</sub>~~ and SOMOD<sub>t</sub> which are-is to be used in the formulae set out in Special Conditions ~~3A and 4A~~ for the purposes of ascertaining the values of the terms ~~BR<sub>t</sub>~~ and ~~SOBR~~ SOI<sub>t</sub> respectively.

**Part B: Direction of the values of ~~MOD<sub>t</sub>~~ and SOMOD<sub>t</sub>**

5B.10 Subject to paragraph 5B.2, the values of the terms ~~MOD~~ and SOMOD for Relevant Year t will be directed by the Authority no later than 30 November in each Relevant Year t-1.

5B.11 If, subject to paragraph 5B.2, for any reason, the Authority does not direct a value for ~~one or both of~~ the terms ~~MOD<sub>t</sub>~~ or SOMOD<sub>t</sub> by 30 November in any Relevant Year t-1, then the Annual Iteration Process set out in Part A of this condition will not have been completed and the provisions set out in paragraphs 5B.12 and 5B.13 will apply.

5B.12 The Authority will complete the Annual Iteration Process set out in Part A of this condition as soon as is reasonably practicable after 30 November in the Relevant Year t-1 concerned by directing a values for ~~MOD<sub>t</sub>~~ and SOMOD<sub>t</sub>.

5B.13 In the intervening period (between the 30 November in the Relevant Year t-1 concerned and the making of a direction under paragraph 5B.12), the values of ~~MOD<sub>t</sub>~~ and SOMOD<sub>t</sub> will be held to be equal to values ascertained by:

- (a) taking a copy of the ET1 Price Control Financial Model in its state following the last completed Annual Iteration Process which, for the avoidance of doubt, will exclude the effect of any functional modifications under Special Condition 5A (Governance of ET1 Price Control Financial Instruments) made after the completion of that Annual Iteration Process;
- (b) using the selection facilities on the user interface sheet contained in that copy to select:

**Note:** As the name of the licensee in the PCFM is NGET, NGET will have to be referenced for both NGET and NGESO.

- i. the name of ~~[NGET]~~ the licensee; and
  - ii. the Relevant year equating to Relevant Year t; and
- (c) recording the values of the terms ~~MOD<sub>t</sub>~~ and SOMOD<sub>t</sub> for the licensee that ~~are~~ is shown as an output values.

5B.14 For the avoidance of doubt, neither:

- a) an Annual Iteration Process for the ET1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor
- b) a change to the Relevant Year included in the name of and text within the ET1 Price Control Financial Model (as referred to at paragraphs 5A.17(b) and (c) of Special Condition 5A,

will constitute a modification of the ET1 Price Control Financial Model within the meaning of Part B of Special Condition 5A.

5B.15 This condition should be read and construed in conjunction with Special Condition 5A.

Chapter 6: ~~Annual Iteration Process – Adjustments to the Transmission Network Revenue Restriction~~ Not Used.

**Drafting Change:** Chapter 6 (Annual Iteration Process – Adjustments to the Transmission Network Revenue Restriction) will not apply to NGESO as it related to the TO only. However, there is a continued need for the NGESO licence to refer to Special Condition 6 calculations in order to derive SOMOD under Chapter 5.

## Chapter 7: Annual Iteration Process - Adjustments to the System Operator Revenue

**Drafting Change:** Chapter 7 (Annual Iteration Process – Adjustments to the System Operator) will apply to NGESO with no adjustments, with the exception of updating references to NGET refer to NGESO.

### Special Condition 7A. Legacy price control adjustments – System Operator Introduction

7A.1 The purpose of this condition is to determine any appropriate revisions to the PCFM Variable Values for Relevant Year 2013/14 relating to the items specified in Part A of this condition for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7A.2 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an appropriate adjustment of the licensee's Maximum SO Internal Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the licensee in respect of:

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

in Relevant Years prior to Relevant Year 2013/14 (the 'legacy period'), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.

7A.3 This condition should be read and construed in conjunction with Special Condition 5B and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).



7A.4 There are no provisions to revise PCFM Variable Values relating to legacy price control adjustments for Relevant Years other than Relevant Year 2013/14 because, under the Annual Iteration Process, all of the calculations necessary to achieve the result referred to in paragraph 7A.2 are made using values for Relevant Year 2013/14.

**Part A: Determination and direction of revised PCFM Variable Values relating to SO legacy price control adjustments for Relevant Year 2013/14.**

7A.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) SO legacy price control revenue allowance adjustments (SOLAR values); and
- (b) SO legacy price control adjustments to SO RAV balance additions (SOLRAV values),

for Relevant Year 2013/14.

7A.6 The SOLAR and SOLRAV values for each Relevant Year are zero as at 1 April 2013.

7A.7 Subject to paragraph 7A.8 of this condition, the Authority will, by 30 November in each Relevant Year  $t-1$ , or as soon as reasonably practicable thereafter:

- (a) determine whether any SOLAR or SOLRAV values should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined.

7A.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7A.7 is Relevant Year 2013/14 for the Annual Iteration Process that will take place by 30 November 2013.

7A.9 Revisions to the SOLAR value for Relevant Year 2013/14 will be determined in accordance with the following formula:

$$\text{SOLAR} = \text{SOCAR} + \text{SOOIR}$$

where:

**SOCAR** means the revenue allowance adjustment in respect of the SO Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.

**SOOIR** means the revenue allowance adjustment in respect of legacy period System Operator expenditure incentive scheme adjustments, determined in accordance with Part B of this condition.

7A.10 Revisions to the SOLRAV value for Relevant Year 2013/14 will be determined in accordance with the following formula:

$$\text{SOLRAV} = \text{SOCRAV}$$

where:

**SOCRAV** means the adjustment to the licensee's SO RAV balance additions in respect of the SO Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.

7A.11 The effect of using revised SOLAR and SOLRAV values for Relevant Year 2013/14 in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt, in respect of any particular Annual Iteration Process, no previously directed value of the term SOMOD will be retrospectively affected.

**Part B: Determination of component term values for the formulae set out in Part A**

7A.12 This Part B provides for the determination of component term values for the formulae set out in Part A that are used to determine revisions to SOLAR and SOLRAV values for Relevant Year 2013/14.

7A.13 Subject to paragraph 7A.8, the Authority will, by 30 November in each Relevant Year t-1, determine the value of the component terms SOCAR, SOOIR and SOCRAV, in accordance with the methodology set out in part 2 of chapter 15 of the ET1 Price Control Financial Handbook.

7A.14 The first Relevant Year in which the Authority will make determinations pursuant to paragraph 7A.13 of this condition is Relevant Year 2013/14 for the purpose of determining any revisions to SOLAR and SOLRAV values for the Annual Iteration Process that will take place by 30 November 2013.

**Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to SO legacy price control adjustments by the Authority**

7A.15 Subject to paragraph 7A.8 of this condition, revised SOLAR values and SOLRAV values for Relevant Year 2013/14, determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

7A.16 Any direction issued under paragraph 7A.15 of this condition will include a statement of the component term values determined under Part B of this condition.

7A.17 Before issuing any directions under paragraph 7A.15 of this condition, the Authority will give notice to the licensee of all of the values that it proposes to direct.

7A.18 The notice referred to in paragraph 7A.15 of this condition must:

- (a) state that any revised SOLAR and SOLRAV values for Relevant Year 2013/14 have been determined in accordance with Parts A and B of this condition; and

- (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised SOLAR or SOLRAV values.

7A.19 The Authority will have due regard to any representations duly received under paragraph 7A.18, and give reasons for its decisions in relation to them.

7A.20 If, subject to paragraph 7A.8, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOLAR and SOLRAV values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 5B.12 of Special Condition 5B, and in any case, before directing a value for SOMODt under that paragraph.

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

7A.21 Definitions used in this condition and defined in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

## Special Condition 7B. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator

### Introduction

7B.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the licensee's actual SO Totex expenditure in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7B.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

- (a) the value of the term SOMOD as calculated for Relevant Year t for the purposes of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an adjustment of the licensee's Maximum SO Internal Revenue; and
- (b) appropriate adjustments will be made to the licensee's Regulatory Asset Value (RAV) balance,

that reflect the licensee's performance under the Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

7B.3 This condition should be read and construed in conjunction with, Special Conditions 5A (Governance of ET1 Price Control Financial Instruments) and 5B.

### Part A: SO Totex Incentive Mechanism applicable to the licensee

7B.4 The SO Totex Incentive Mechanism ensures that the licensee bears an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Relevant Year, between:

- (a) the licensee's allowed SO Totex expenditure; and
- (b) the licensee's actual SO Totex expenditure.

- 7B.5 The 'appropriate share' referred to in paragraph 7B.4 of this condition is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).
- 7B.6 SO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the ET1 Price Control Financial Model. The SO Totex Capitalisation Rate set down against the licensee's name in the table at Appendix 1 to this condition is a fixed value, contained in the Price Control Financial Model, that is used in the calculation of SO Totex Incentive Mechanism adjustments.
- 7B.7 This condition provides for the determination and direction of revisions to the two PCFM Variable Values that relate to the licensee's actual SO Totex expenditure. PCFM Variable Values which relate to the licensee's allowed SO Totex expenditure are specified in other Special Conditions of the licence, and are scheduled in the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

**Part B: Process for determining PCFM Variable Values for the SO Totex Incentive Mechanism**

- 7B.8 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) actual controllable opex (SOACO values); and
  - (b) actual non-operational capex (SOANC values).
- 7B.9 Subject to paragraph 7B.10, the Authority will, by 30 November in each Relevant Year t-1:
- (a) determine revised SOACO and SOANC values for Relevant Year t-2; and
  - (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Relevant Years to which they relate,
- in each case in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook.

- 7B.10 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7B.9 is Relevant Year 2014/15.
- 7B.11 The Authority may also direct revisions to SOACO and SOANC values for Relevant Years earlier than Relevant Year t-2, where that is necessary to take into account any restatement of, or correction to, Specified Information submitted by the licensee, under any provision of this licence. Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.
- 7B.12 Where the Authority directs any revised SOACO or SOANC values for Relevant Years earlier than Relevant Year t-2, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

**Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to the licensee's actual SO Totex expenditure by the Authority**

- 7B.13 Subject to paragraph 7B.10 of this condition, revised SOACO and SOANC values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 7B.14 Before issuing any directions under paragraph 7B.13 of this condition the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 7B.15 The notice referred to in paragraph 7B.14 will:
- (a) state that any revised SOACO or SOANC values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised SOACO or SOANC values.

7B.16 The Authority will have due regard to any representations duly received under paragraph 7B.15 of this condition, and give reasons for its decisions in relation to them.

7B.17 If, subject to paragraph 7B.10, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOACO and SOANC values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 5B.12 of Special Condition 5B and, in any case, before directing a value for SOMODt under that paragraph.

### **APPENDIX 1: TOTEX INCENTIVE STRENGTH AND SO TOTEX CAPITALISATION RATES**

(see Part A of this condition)

<b>Licensee</b>	<b>Totex Incentive Strength Rate</b>	<b>SO Totex Capitalisation Rate</b>
National Grid Electricity <a href="#">Transmission System Operator</a> <b>plc Limited</b>	46.89%	27.9%



## Special Condition 7C. Specified financial adjustments – System Operator

### Introduction

7C.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
- (b) the Relevant Years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7C.2 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year *t* for the purposes of Special Condition 4A (Restriction on System Operator Internal Costs) will result in an appropriate adjustment to the licensee's Maximum SO Internal Revenue in a manner that appropriately reflects the licensee's:

- (a) revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy;
- (b) revenue allowances for tax liabilities; and
- (c) allowed SO percentage cost of corporate debt,

determined under the methodologies set out in chapters 3, 4 and 5 of the ET1 Price Control Financial Handbook respectively.

7C.3 This condition should be read and construed in conjunction with Special Conditions 5A and 5B (Governance of ET1 Price Control Financial Instruments).

### **Part A: SO revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy**

7C.4 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) Pension Scheme Established Deficit SO revenue allowances (SOEDE values); and
- (b) Pension Scheme Administration and Pension Protection Fund levy SO revenue allowances (SOAPFE values).

7C.5 Subject to paragraph 7C.6 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOEDE values should be revised as a result of:

- (a) a valuation of each pension scheme sponsored by the licensee;
- (b) a review of the valuations referred to in sub-paragraph (a) and of the reasonableness of the licensee's Pension Scheme Established Deficit funding levels; and
- (c) a review of the level of payments actually made by the licensee to its pension scheme,

in each case in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

7C.6 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.5 of this condition is Relevant Year 2014/15.

7C.7 Subject to paragraph 7C.9 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOAPFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) Pension Scheme Administration costs; and/or
- (b) Pension Protection Fund levy costs,

in each case, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

7C.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.7 of this condition is Relevant Year 2014/15.

7C.9 If the Authority determines under paragraph 7C.5 or 7C.7 that, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook, any SOEDE values or SOAPFE values are to be revised, it will by 30

November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOEDE values and SOAPFE values that have been determined and the Relevant Years to which they relate.

7C.10 Where the Authority directs any revised SOEDE values or SOAPFE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

**Part B: SO tax liability allowances**

7C.11 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) SO tax liability revenue allowance adjustments in respect of tax trigger events (SOTTE values); and
- (b) SO tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (SOTGIE values).

7C.12 The SOTTE values and SOTGIE values for each Relevant Year are zero as at 1 April 2013.

7C.13 Subject to paragraph 7C.14 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOTTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

7C.14 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 7C.13 of this condition is Relevant Year 2013/14.

7C.15 Subject to paragraph 7C.16 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOTGIE values should be revised as a result of a review of:

- (a) the licensee's actual level of gearing; and
  - (b) the level of debt interest charges actually incurred by the licensee,
- in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

7C.16 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.15 of this condition is Relevant Year 2014/15.

7C.17 If the Authority determines under paragraph 7C.13 or 7C.15 of this condition that, in accordance with the methodologies contained in chapter 4 of the ET1 Price Control Financial Handbook, any SOTTE values or SOTGIE values are to be revised, it will by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOTTE values and SOTGIE values that have been determined and the Relevant Years to which they relate.

7C.18 Where the Authority directs any revised SOTTE values or SOTGIE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

**Part C: Allowed SO percentage cost of corporate debt**

7C.19 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed SO percentage cost of corporate debt (SOCDE values).

7C.20 Subject to paragraph 7C.22, the Authority will by 30 November in each Relevant Year t-1:

- (a) determine a revised SOCDE value for Relevant Year t and each subsequent Relevant Year in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook; and

- (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOCDE values that have been determined and the Relevant Years to which they relate.

7C.21 The Authority may also revise the SOCDE value for a Relevant Year earlier than Relevant Year  $t$  where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.

7C.22 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.20 of this condition is Relevant Year 2013/14.

7C.23 Where the Authority directs any revised SOCDE values for Relevant Years earlier than Relevant Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year  $t$  and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

**Part D: Procedure to be followed for direction of revised SO PCFM Variable Values relating to specified SO financial adjustments by the Authority**

7C.24 Subject to, and in accordance with, the provisions of Parts A, B and C of this condition, revised SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year  $t-1$ .

7C.25 Before issuing any directions under paragraph 7C.24 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7C.26 The notice referred to in paragraph 7C.25 of this condition will:

- (a) state that any revised SOEDE and SOAPFE values have been determined in accordance with Part A of this condition;
- (b) state that any revised SOTTE and SOTGIE values have been determined in accordance with Part B of this condition;

- (c) state that any revised SOCDE values have been determined in accordance with Part C of this condition; and
- (d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised SOEDE, SOAPFE, SOTTE, SOTGIE or SOCDE values.

7C.27 The Authority will have due regard to any representations duly received under paragraph 7C.26 of this condition, and give reasons for its decisions in relation to them.

7C.28 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values by 30 November, the Authority will direct the values concerned as soon as reasonably practicable, consistent with the purpose of paragraphs 5B.12 of Special Condition 5B, and in any case, before directing a value for SOMODt under that paragraph.

#### **Part E: Interpretation**

7C.29 Definitions used in this condition and defined in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

## Special Condition 7D. Arrangements for the recovery of SO uncertain costs

### Introduction

- 7D.1 The purpose of this condition is as follows:
- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of Allowed Expenditure (“relevant adjustments”) in relation to the categories set out in paragraph 7D.3 of this condition (each “ uncertain cost category”); and
  - (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- 7D.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term  $SOMOD_t$  as calculated for Relevant Year  $t$  for the purposes of Part B of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an appropriate adjustment to the licensee’s Maximum SO Internal Revenue in a manner that takes account of Allowed Expenditure levels in relation to the uncertain cost categories specified in paragraph 7D.3 of this condition, determined under Part A of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapters 6 and 7 of the ET1 Price Control Financial Handbook.
- 7D.3 The uncertain cost categories referred to in paragraph 7D.1 of this condition are:
- (a) Enhanced Security Costs; and
  - (b) Electricity Market Reform Enduring Solution.
- 7D.4 This condition should be read and construed in conjunction with Special Condition 5A (Governance of ET1 Price Control Financial Instruments) and Special Condition 5B.

## **Part A: Proposal and determination of relevant adjustments**

7D.5 This Part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

### **Proposal of relevant adjustments**

7D.6 Subject to paragraph 7D.9 and 7D.10 of this condition, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to Allowed Expenditure:

- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's SO Opening Base Revenue Allowance was derived;
- (b) takes account of any relevant adjustments previously determined under this condition;
- (c) except where the proposed change is in relation to paragraph 7D.10(a) of this condition, in aggregate constitutes a material amount within the meaning of paragraph 7D.7 of this condition;
- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to Allowed Expenditure which cannot be made under the provisions of any other Special Condition of this licence.

7D.7 A material amount is an amount of change to Allowed Expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed one per cent



of the licensee's materiality threshold amount as set out in Appendix 2 of this condition.

7D.8 A proposal made under paragraph 7D.6 of this condition must include statements setting out:

- (a) the uncertain cost category to which the proposal relates;
- (b) the changes to the licensee's Allowed Expenditure levels that are proposed and the Relevant Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's Allowed Expenditure levels referred to in sub-paragraph (b) of this paragraph.

### **Application windows for relevant adjustment proposals**

7D.9 In relation to relevant adjustment proposals that are not proposals on Electricity Market Reform Enduring Solution, the licensee and the Authority may only propose relevant adjustments during the following application windows:

- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.

7D.10 In relation to relevant adjustment proposals on Electricity Market Reform Enduring Solution, the licensee or the Authority may only propose relevant adjustments during the following application windows:

- (a) the first application window which opens on 1 August 2014 and closes on 12 January 2015; and
- (b) the second application window which opens on 1 May 2019 and closes on 31 May 2019. The only relevant adjustments that may be proposed in this window are those in relation to implementing major scope changes to the Electricity Market Reform Enduring Solution.

7D.11 Relevant adjustments relating to any uncertain cost category may be proposed during any applicable application window provided that each

such relevant adjustment proposal complies with the provisions of paragraphs 7D.6 to 7D.8 of this condition, to the extent that those paragraphs apply.

### **Authority's power to determine relevant adjustments**

7D.12 Where a proposal has been duly made under paragraph 7D.6 of this condition, the Authority may determine any relevant adjustments that are to be made to the licensee's Allowed Expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate:

- (a) in the case of a proposal on Electricity Market Reform Enduring Solution, made during the first application window under paragraph 7D.10(a) of this condition, by 31 October 2015 (or as soon as reasonably practicable thereafter); and
- (b) in the case of any other proposal, within four months after the close of the relevant application window.

7D.13 In determining any relevant adjustment under paragraph 7D.12 of this condition, the Authority will:

- (a) consult with the licensee and other interested parties;
- (b) have particular regard to the purposes of this condition; and
- (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.

7D.14 A determination under paragraph 7D.12 of this condition may confirm, reject, or vary the proposed relevant adjustment.

7D.15 Without limiting the general effect of paragraph 7D.14 of this condition, a determination by the Authority of a relevant adjustment may specify changes to Allowed Expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.

7D.16 The Authority will notify the licensee of any determination made under paragraph 7D.12 of this condition within 14 days of making the determination concerned.

7D.17 Except in relation to a proposal made under paragraph 7D.10(a) , if the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 7D.6 of this condition within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to Allowed Expenditure levels for the licensee for Relevant Years specified in the proposal, will be deemed to have been made.

**Provisional allowance for Electricity Market Reform Enduring Solution for 2014/15 and 2015/16**

7D.18 Without limiting the general effect of paragraphs 7D.14 and 7D.15 of this condition, relevant adjustments to the licensee's levels of Allowed Expenditure in relation to Electricity Market Reform Enduring Solution for the Relevant Years 2014/15 and 2015/16 are set out in Appendix 3 of this Condition.

**Part B: Determination of revisions to PCFM Variable Values**

7D.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

- (a) Enhanced Security Costs (SOIAEEPS values); and
- (b) Electricity Market Reform Enduring Solution (SOEMRES values).

7D.20 The Authority will determine whether any PCFM Variable Values should be revised for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.

7D.21 Determinations under paragraph 7D.20 of this condition are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.

7D.22 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term  $SOMOD_t$  for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term  $SOMOD_t$  will be retrospectively affected.

**Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs**

7D.23 Subject to paragraph 7D.27 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:

- (a) in the case of SOEMRES values:
  - (i) 30 November 2014 (or as soon as is reasonably practicable thereafter), in respect of the relevant adjustment set out in paragraph 7D.18 of this condition;
  - (ii) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the application window set out in paragraph 7D.10(a) of this condition: and
  - (iii) 30 November 2019 (or as soon as reasonably practicable thereafter), following the application window set out in paragraph 7D.10(b) of this condition.
- (b) in the case of any of any other PCFM Variable Values:
  - (i) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window set out in paragraph 7D.9(a) of this condition; and
  - (ii) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the second application window set out in paragraph 7D.9(b) of this condition

7D.24 Before issuing any directions under paragraph 7D.23 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7D.25 The notice referred to in paragraph 7D.24 of this condition will:

- (a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
- (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised PCFM Variable Values.

7D.26 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 7D.25 of this condition, and give reasons for its decisions in relation to them.

7D.27 If, for any reason, the Authority does not make a direction required under paragraph 7D.23 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraphs 5B.11 to 5B.13 of Special Condition 5B and, in any case, before directing a value for SOMOD<sub>t</sub> under paragraph 5B.12 of that condition.

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

7D.28 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further clarification set out in the relevant Regulatory Instructions and Guidance issued by the Authority under Special Condition B15 (Regulatory Instructions and Guidance).

## APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

**Drafting Change:** References to National Grid Electricity Transmission plc throughout the appendices will be updated to refer to NGEN.

(see paragraph 7D.7 of this condition)

Licensee	Totex Incentive Strength Rate (%)
National Grid Electricity Transmission System Operator Limited	46.89

## APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 7D.7 of this condition)

Licensee	£m
National Grid Electricity Transmission System Operator Limited	120.517

## APPENDIX 3: PROVISIONAL ALLOWANCE FOR ELECTRICITY MARKET REFORM ENDURING SOLUTION FOR 2014/15 AND 2015/16

(see paragraph 7D.18 of this condition)

Licensee	£m (2009/10 prices)	
	2014/15 (8 months)	2015/16 (12 months)
National Grid Electricity Transmission System Operator Limited	1.72	2.57

## Chapter 8: Other Revenue Restriction Related Conditions

**Drafting Change:** Minor amendments to remove reference to NGET Special Conditions.

### Special Condition 8A. Disapplication of Relevant Special Conditions Introduction

8A.1 The purpose of this condition is to enable the licensee to make a formal request for the disapplication of the Relevant ~~SO~~ Special Conditions ~~or Relevant TO Special Conditions~~ (in whole or in part) and for such provisions to be disapplied following such a request in the circumstances specified below.

#### Part A: Conditions are to continue subject to disapplication

8A.2 The Relevant ~~SO~~ Special Conditions ~~or Relevant TO Special Conditions~~ apply for as long as this licence continues in force, but will cease to have effect (in whole or in part, as the case may be) if the licensee serves a Disapplication Request on the Authority in accordance with the provisions of Part B and C below and:

- (a) the Authority agrees in writing to the Disapplication Request; or
- (b) the application of the Relevant ~~SO~~ Special Conditions ~~or Relevant TO Special Conditions~~ (in whole or in part) is terminated by Notice given by the licensee in accordance with the provisions of Part D below.

#### Part B: Procedure for making a Disapplication Request

8A.3 The licensee may ask the Authority to consent to the disapplication of the Relevant ~~SO~~ Special Conditions ~~or Relevant TO Special Conditions~~ (in whole or in part) by serving a Disapplication Request on the Authority under this condition.

8A.4 A Disapplication Request must:

- (a) be in writing and addressed to the Authority;
- (b) specify to which of the Relevant ~~SO~~ Special Conditions ~~or Relevant TO Special Conditions~~ (or any part or parts of them) the request relates;
- (c) provide a full statement of the licensee's reasons for making the request;
- (d) contain such other information or analysis as the licensee considers sufficient to enable the Authority to fully assess the Disapplication Request; and
- (e) state the date that is proposed by the licensee (which must not be earlier than the appropriate date that is mentioned in Part C below) on and after which the specified Relevant ~~SO~~ Special Conditions ~~or Relevant TO Special Conditions~~ (or part or parts of them) would cease to have effect (the "Disapplication Date").

8A.5 A Disapplication Request served under this condition may be served in respect of a specified geographical area.

8A.6 If, within 28 days of a Disapplication Request, the Authority gives notice to the licensee

- (a) specifying further information or analysis that it reasonably considers is required in order to fully assess the Disapplication Request, and
- (b) requests the licensee to provide that information or analysis,

the Disapplication Request shall be treated for the purposes of paragraph 8A.8 of this condition as not served on the Authority until that further information or analysis is provided to the Authority and, if in consequence the Disapplication Date set out in the Disapplication Request no longer complies with paragraph 8A.8 below, the Disapplication Date shall be treated as being the earliest date that would comply with that paragraph.

8A.7 The licensee may withdraw a Disapplication Request at any time.

### **Part C: Date from which a disapplication may take effect**



8A.8 Except where the Authority otherwise consents, a disapplication following the service of a Disapplication Request may not have effect until a date that is no earlier than 18 months after it is served on the Authority of the Disapplication Request.

**Part D: Licensee’s right to terminate under a Disapplication Request**

8A.9 If the licensee has served on the Authority a Disapplication Request that complies with the requirements of Parts B and C of this condition, it may subsequently give the Authority a notice (a “Disapplication Notice”) that terminates the application of some or all of the provisions of this Licence specified in that request:

- (a) in the circumstance described in Part E; or
- (b) in the circumstance described in Part F,

but in either case the Disapplication Notice may not take effect before the Disapplication Date or such earlier date to which the Authority may have consented under Part C.

**Part E: Termination without involvement of the Competition Commission**

8A.10 The circumstance referred to in paragraph 8A.9(a) above is that by the beginning of the period of [six] months that would end on the Disapplication Date, the Authority has not in response to the Disapplication Request published a decision under section 11A(7) of the Act to modify:

- (a) the Relevant ~~SO~~ Special Conditions ~~or Relevant TO Special Conditions~~(or any part or parts of them) to which the Disapplication Request applies; or
- (b) this Condition so as to remove the licensee’s right to give the Authority a Notice under paragraph 8A.9 in respect of the relevant Disapplication Request.

## **Part F: Termination after involvement of the Competition Commission**

8A.11 The circumstance referred to in paragraph 8A.9(b) above is that the Authority has published a decision as described in paragraph 8A.10(a) or 8A.10(b) above and:

- (a) the licensee has exercised its right to appeal to the Competition Commission against that decision of the Authority as provided for by section 11C of the Act;
- (b) the Competition Commission, acting under section 11F of the Act, has, in respect of the provision to which the Disapplication Notice relates: (i) quashed the Authority's decision, and (ii) neither remitted the matter back to the Authority under section 11F(2)(b) of the Act nor substituted its own decision for that of the Authority's under section 11F(2)(c) of the Act; and
- (c) no more than 30 days have elapsed since the date on which the Competition Commission quashed the decision in the circumstances described in paragraph 8A.11(b) above.

## Special Condition 8B. Services treated as Excluded Services

### Introduction

- 8B.1 The purpose of this condition is to set out the basis on which certain services provided by the licensee may be treated as Excluded Services under the Special Conditions.
- 8B.2 Excluded Services are services that conform with the General Principle set out at Part B below and that include, without limitation, those services listed at paragraph 8B.10 of this condition.
- 8B.3 Revenue derived by the licensee from the provision of Excluded Services is excluded from the calculation of the Maximum Revenue formula.

### Part A: Structure of this condition

- 8B.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the licensee are to be treated as Excluded Services.
- 8B.5 Part C of this condition sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services.
- 8B.6 Part D of this condition provides for the Authority to give directions in respect of services provided by the licensee that are to be treated as Excluded Services. It also provides for the Authority to direct that any service provided by the licensee should not be treated as an Excluded Service.

### Part B: Statement of General Principle

- 8B.7 The General Principle is that a service provided by the licensee as part of its Transmission Business Activities is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 8B.8 of this condition.
- 8B.8 The charges referred to in paragraph 8B.7 of this condition are:
- (a) Transmission Network Charges, under the provisions of Special Condition 3A (Restriction of Transmission Network Revenue);

- (b) Internal balancing services activity charges, under the provisions of Special Condition 4A (Restriction of System Operator Internal Revenue);
- (c) External balancing services activity charges, under the provisions of Special Condition [4C\\_AA5A](#) (Balancing Services Activity Revenue Restriction [on External Costs](#)); and
- (d) Charges arising from any activity carried out under any provision the provisions of Special Condition 3I (Network Innovation Competition) which results in Returned Royalty Income for the licensee as defined in that condition.

### Part C: Categories of Excluded Services

8B.9 The descriptions of categories of Excluded Services set out at paragraph 8B.10 of this condition are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGs issued by the Authority under Standard Condition B15 (Regulatory Instructions and Guidance) of this licence.

8B.10 Subject to Part D of this condition, Excluded Services will include, but are not limited to, the following services:

**Note:** Connection services needs to be retained for the NGESO as part of the application fee covers the SO administration costs of making offers( eg for connection and feasibility studies).

ES1. Connection services: This category consists of [administration in relation to](#) the carrying out of works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain electric lines, electrical plant, or meters necessary to provide any new connection or modify any existing connection to the [National Electricity Transmission licensee's Transmission](#) System, (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 8B.8 of this condition).

**Note:** ES2, ES3, ES4 have been removed as they are not relevant for NGESO.

~~ES2. Diversionary works under an obligation: This category consists of the relocating of any electric line or electrical plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9(2) (General duties of licence holders) of the Act, where the statutory obligation makes provision for the reimbursement of the costs incurred.~~

~~ES3. Works required by any alteration of premises: This category consists of the moving of any electric line or electrical plant that forms part of the licensee's Transmission System to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.~~

~~ES4. Telecommunications and information technology infrastructure services: This category consists of allowing the use of any electric line or electrical plant that forms part of the licensee's transmission system to carry, either directly or indirectly (including by the incorporation of third party equipment), electronic information and data.~~

~~ES5~~ES2. Miscellaneous: This category consists of the provision of any other service ~~(including the provision of electric lines or electrical plant)~~ that:

- (a) is for the specific benefit of any third party who requests it; and
- (b) is not made available by the licensee as a normal part of the activities of its Transmission Business Activities.

#### **Part D: Authority's power to give directions**

8B.11 Where the Authority (having regard to the General Principle) is satisfied:

- (a) that any service treated by the licensee as an Excluded Service should not be so treated; or
- (b) that any service not treated by the licensee as an Excluded Service should be so treated,

it may issue to the licensee a direction to that effect.

8B.12 Where a direction is given under paragraph 8B.11 of this condition, the licensee must, in accordance with the direction, either:

- (a) stop treating the service or services specified in the direction as Excluded Services; or
- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

**Special Condition 8C. Not used**

**Drafting Change:** Special Condition 8C (Basis of Transmission Owner Charges) does not apply to NGEESO as this refers to TO obligations only.