

**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. NGET**

### **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 NGET will be revised further after 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.
<u>Allowed Transmission Owner Revenue</u>	<u>Means the revenue calculated in accordance with the formula set out in Part B of Special Condition 3A (Restriction of Transmission Network Revenue).</u>
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> </ul>

- (c) a Participating Owner of the licensee; or
- (d) a Common Control Company.

Authority means the Gas and Electricity Markets Authority.

Authority's website means [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

Average Specified Rate means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made.

~~Balancing Mechanism~~ has the meaning given in Standard Condition C1 (Interpretation of Section C).

~~balancing services~~ has the meaning given to this term in Standard Condition C1 (Interpretation of Section C).

~~Balancing Services Activity~~ has the meaning given to this term in Standard Condition C1 (Interpretation of Section C).

~~Balancing Services Activity Revenue~~ means the total revenue derived by the licensee from the carrying on of the Balancing Services Activity.

~~Balancing Services Activity Revenue Restriction~~ means Special Conditions 4A (Restriction of System Operator Internal Revenue) and 4C (Balancing Services Activity Revenue Restriction on External Costs), together with such parts of Special Conditions 4B (Balancing Services Activity Conditions: Interpretation) and Special Conditions 4D (Restriction on Contracting with BSC Parties) to 4K (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs) inclusive as

~~are ancillary thereto.~~

Base Transmission  
Revenue

means the revenue calculated in accordance with the formula set out in Part C of Special Condition 3A (Restriction on Transmission Network Revenue).

Baseline Wider Works  
Output(s)

means a specific programme of Wider Works the licensee plans to Deliver where such works are approved by the Authority and set out as a Baseline Wider Works Output in Table 1 in Part A of Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure).

~~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~~

	<b>Condition C1 (Interpretation of Section C):</b>
<b>BSC Party</b>	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 <sub>t</sub> 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).
<b>Capital Contributions</b>	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 <b>Special Condition 4J (The System Operator Innovation Roll-out Mechanism and</b> 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 <b>SO</b> Special Conditions <b>or the Relevant TO Special Conditions</b> (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.
<b>Electricity Market Reform Enduring Solution</b>	<b>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)</b>
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	means the amount of Eligible NIA

Expenditure	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.

<b>Embedded Transmission System</b>	<b>means a transmission system consisting of plant and equipment that includes relevant offshore lines which forms part of the National</b>
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~~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

a document published, and from time to time

Reward (EDR) Scheme Guidance	revised by the Authority in accordance with Part D of Special Condition 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme) for the purposes of setting out the submission requirements, assessment process and procedures, administration, and governance of the Environmental Discretionary Reward Scheme.
EPI Allowed Expenditure (EPIE)	has the meaning given to it by paragraph 6G.2 of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas).
EPI Outputs	means those EPI outputs that are set out in Table 1 of Part B of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas).
ET1 Price Control Financial Handbook	<p>means the document of that name that was published by the Authority on 1 February 2013 and came into effect on 1 April 2013 that:</p> <ul style="list-style-type: none"> <li>(a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and</li> <li>(b) contains, in particular, the ET1 Price Control Financial Methodologies,</li> </ul> <p>as modified from time to time in accordance with the provisions of Special Condition 5A</p>

(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: <ul style="list-style-type: none"> <li>(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);</li> <li>(ii) any energy not supplied resulting from a shortage of available generation;</li> <li>(iii) any energy not supplied resulting from a de-energisation or disconnection of a user’s equipment under an event of default as</li> </ul>

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**

	<p><del>System Operator in performing its Relevant System Planning Activities</del>).</p>
Information	<p>for the purposes of <del>Special Condition 2N (Electricity Market Reform)</del> and Special Condition 2O (Business separation requirements and compliance obligations, <del>and conduct of the System Operator in performing its Relevant System Planning Activities</del>) 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.</p>
Innovation	<p>for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means any or all of the following:</p> <ul style="list-style-type: none"> <li>(a) a specific piece of New Network Equipment;</li> <li>(b) a novel arrangement or application of new or existing Network Equipment;</li> <li>(c) a novel operational practice; or</li> <li>(d) a novel commercial arrangement, that is not, or is not within the scope of, an Ordinary Business Arrangement.</li> </ul>
Innovation Roll-out Costs	<p>for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means the proposed cost of Rolling out a Proven Innovation.</p>
<del>Interconnector Owner</del>	<p><del>means the holder for the time being of an electricity interconnector licence in relation to which licence the Authority has issued a</del></p>

~~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

has the meaning given to that term in

Transmission System	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 <del>-) and Special Condition 4J (The System Operator Innovation Roll-out Mechanism)</del> ) 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	for the purposes of Special Condition 2M

Outputs	(Specification of Network Replacement Outputs) means the Replacement Priority profile that the licensee is required to deliver on its Transmission System by 31 March 2021 that has been approved as part of the Price Control Review and funded in its Opening Base Revenue Allowance, as measured by the Network Output Measures.
New Network Equipment	for the purposes of Special Condition 6E <del>and Special Condition 4J (The System Operator Innovation Roll-out Mechanism)</del> (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.
<del>New Provider</del>	<del>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.</del>
NIA Governance Document	means the document issued by the Authority under Part D of Special Condition 3H (The Network Innovation Allowance), subject to the requirements of Part E of Special Condition 3H (The Network Innovation Allowance), relating generally to the establishment and operation of the NIA and including matters relating to the calculation of the Eligible NIA Expenditure.
NIA Percentage	means the percentage of Base Transmission

	Revenue which the licensee may use for Eligible NIA Projects as set out in Appendix 1 of Special Condition 3H (The Network Innovation Allowance).
NIC Funding	has the meaning given to that term in Part B of Special Condition 3I (The Network Innovation Competition).
NIC Funding Mechanism	has the meaning given to that term in Part B of Special Condition 3I (The Network Innovation Competition).
NIC Governance Document	means the document issued by the Authority under Part E of Special Condition 3I (The Network Innovation Competition), subject to the requirements of Part F, relating generally to the NIC and including matters relating to the operation of the NIC Funding Mechanism.
NOMs Methodology Objectives	means the objectives set out in Part B of Special Condition 2L (Methodology for Network Output Measures).
<del>Non-chargeable Outage Change</del>	<del>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).</del>
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</li> </ul>



(England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and

(b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government etc (Scotland) Act 1994,

or any legislation amending or replacing those enactments.

Offshore Transmission  
Owner

means the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section E (offshore transmission owner standard conditions) Direction and where Section E remains in effect (whether or not subject to any terms included in Section E (offshore transmission owner standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject).

Opening Base Revenue  
Allowance(s)

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

Operational Forum Meeting

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

Ordinary Business

for the purposes of Special Condition 6E (The

Arrangement

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, means a change notified to the licensee by the System Operator on or after week 49 to the outage plan, as updated from time to time in accordance with the STC, other than:

(a) a change to the outage plan requested by the licensee (the "original change"), and  
(b) such changes notified to the licensee by the System Operator which:

i) the licensee and the System Operator

agree are necessary in order to give effect to the original change, or

ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change; and

(c) without prejudice to subparagraphs (a) and (b) above, any change to the outage plan notified to the licensee by the System Operator which the licensee and the System Operator agree is not an outage change under this licence condition (a “non-chargeable outage change”).

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 means the business of:

- (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;
- (b) an Offshore Transmission Owner;

(c) undertaking carbon capture and storage activities; or

(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.

**Relevant System Planning Activities**

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:

(a) standard condition C27 (The Network Options Assessment process and reporting requirements);

(b) paragraph 4(c) of standard condition C6 (Connection charging methodology);

(c) paragraphs 3(c), where relevant to Developer-Associated Offshore Wider Works, 5A and 9A of standard condition C8 (Requirement to offer terms);

(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 advisers 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-construction Works** means for the purposes of Parts B and C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) an amendment to the scope of the pre-construction works carried out or expected to be carried out by the licensee during the Relevant Year 2012/13 as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of Funded Pre-construction Works on a Scheduled Project (including but not limited to

	planning consent).
Relevant Amendment to the Scope of Construction Works	means, for the purposes of Parts B and C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period), an amendment to the scope of construction works that is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of Funded Construction Works on a Scheduled Project (including but not limited to planning consent).
Relevant Generation Capacity	<p>for the purposes of Special Condition 6F (Baseline Generation Connections Outputs and Generation Connections volume driver) is calculated as the sum of 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.</p> <p>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.</p>

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 stations.

Relevant SO Special  
Conditions

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.

Relevant TO Special

means Special Condition 3A (Restriction of

Conditions 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.

Relevant User Agreement to Vary means a bilateral contract between the licensee and user for a modification to an existing grid connection as defined in the CUSC.

Relevant User Connection Agreement for the purposes of Special Condition 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) means a bilateral agreement between the licensee and user for a new grid supply point as defined in the CUSC.

Relevant Year a year beginning on 1 April to which the provisions of this licence apply.

Relevant Year d for the purposes of Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver) means the year in which the circuit is forecast to achieve, or actually achieves stage 2 commissioning.

Relevant Year t for the purposes of the Special Conditions in Chapters 5, and 6, and 7, means the Relevant Year in which the values for the terms MOD and SOMOD, calculated through a particular Annual Iteration Process, are used in the formulae set out in Special Condition 3A (Restriction of Transmission

Network Revenue) ~~and Special Condition 4A (Restriction on System Operator Internal Revenue) respectively~~ and references to Relevant Year t-1 and Relevant Year t-2 are to be construed accordingly. ~~For the purposes of Special Conditions 4C (Balancing Services Activity Revenue on External Costs) to 4K (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 Planning Activities~~) means shared corporate services as specified in the compliance statement.

~~Site-Specific Charges~~ means charges defined in Schedule Ten of the STC.

<b>SO Capex Rolling Incentive</b>	means the mechanism giving rise to the adjustment term $IncPayEX_t$ in Special Condition AA5A of this licence in the form it was in on 31 March 2013.
<b>SO Methodologies</b>	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).
<b>SO Models</b>	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 <sub>m</sub> ” in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).
<b>SO Opening Base Revenue Allowance</b>	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).
<b>SO Regulatory Asset Value</b>	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 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)  $t=n+1$  means the Relevant Year in year 1 post commissioning period for that transmission investment project i and similar expressions shall be construed accordingly.

**TO Regulatory Asset Value** means the financial balance representing expenditure by the licensee in respect of the Transmission Owner part of its transmission business which has been capitalised under regulatory rules. The licensee receives a return and depreciation on its combined TO and SO RAV balances in its price control allowed revenues.

Totex

has the meaning given in the methodology in

chapter 6 of the ET1 Price Control Financial Handbook.

Totex Capitalisation Rate has the meaning given in the glossary of the ET1 Price Control Financial Handbook.

Totex Incentive Mechanism has the meaning given to this term in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

Totex Incentive Mechanism Adjustment has the meaning given to those terms in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

~~Totex Incentive Strength Rate (TO) means the incentive rate for the licensee set out in Appendix 1 of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments- Transmission Owner) and in Appendix 1 to Special Condition 6H (Arrangements for the recovery of uncertain costs).~~

Totex Incentive Strength Rate (SO) means the incentive rate for the licensee set out in Appendix 1 to Special Condition 7D (Arrangements for the recovery of SO uncertain costs).

Transmission Area has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).

Transmission Business has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).

Transmission Business Activities 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:~~

~~(a) the Transmission Owner Activity; and~~

~~(b) the System Operator Activity;~~

~~where System Operator Activity means the~~

~~Balancing Services Activity, as that term is~~

~~defined in standard condition C1~~

~~(Interpretation of Section C).~~

~~Transmission Constraints~~

~~has the meaning given in Standard Condition~~

~~C16 (Procurement and use of balancing~~

~~services).~~

Transmission Investment  
Incentives Projects

means a transmission investment project for which project-specific capital expenditure allowances in respect of one or more TII years are set out in the Appendices to Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) and are reflected in the provisions of that condition.

Transmission Investment for  
Renewable Generation  
(TIRG)

means the term TIRG, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation).

Transmission Licence

has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).

Transmission Licensee

has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).

Transmission Losses

means the units of electricity unaccounted for on the licensee's Transmission System. Unless specified in paragraph 2K.3 (a) of

	Special Condition 2K (Electricity Transmission Losses reporting), the licensee may estimate “Transmission Losses” using the licensee’s own calculations.
Transmission Network Charges	means charges levied by the licensee in respect of the provision of Transmission Network Services.
Transmission Network Revenue	means the aggregate of revenue in the Relevant Year derived by the licensee from the provision of Transmission Network Services and from remote transmission asset rentals.
Transmission Network Revenue Restriction	means such parts of Special Conditions 6A (Legacy price control adjustments – Transmission Owner) to 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11 or 15 of the Act.
Transmission Network Services	has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).
Transmission Owner (TO)	has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).
Transmission Owner Activity	has the meaning given to the term in Standard Condition C1 (Interpretation of Section C).
Transmission Owner	means all services provided as part of the



Services	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.
<del>Use of System Charges</del>	<del>has the meaning given to the term in Standard Condition C1 (Interpretation of Section C).</del>
Vanilla Weighted Average Cost of Capital	has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.
<del>Warming</del>	<del>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.</del>
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-D3** (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.

## Special Condition 1B. 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;
    - (b) convertor 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:

(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.

**Drafting Change:** References to EMR functions have been removed as these are relevant to the NGESO licence only.

~~(b) — 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:

- (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) 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.”;~~

**(a) Drafting Change: Amendments made to exclude NG ESO's transmission business activities (conducted under the ESO transmission licence) from the scope of the definition of NGET's "transmission business".**

~~(d)(c)~~ in the definition of "transmission business":

(aa) not used;

(bb) not used;

(cc) ~~the words "or commercial management" shall be inserted after "maintenance"~~not used;

~~(dd) 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 System Operator Limited (Company Number 11014226) and its affiliates or related~~

undertakings that is participating in the transmission of electricity pursuant to a transmission licence held by National Grid Electricity System Operator Limited.

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”;~~

~~e. 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”~~

**8. 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 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**

### **Special Condition 2A. Activities restrictions**

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:** In its current form, Special Condition 2B applies where the licensee has received an application for connection to the National Electricity Transmission System in either England or Wales, or in an area which is outside the licensee's Transmission Area. Once separation has taken place, this condition will no longer apply to the TO ~~in its current form~~, as the TO will not recover connections applications. ~~However, we are minded to keep 2B in the TO licence in a modified form, as we think it is still necessary to place restrictions on the way that the TO can use information. Therefore, we are minded to keep 2B in NGET's TO licence, but change the wording to reflect the 2B licence condition that is currently used in the Scottish TO licences, which refers to restriction on the use of information more broadly (rather than specifically in relation to connection applications). Therefore we have proposed to delete Special Condition 2B from the NGET licence.~~

**Questions for stakeholders:**

**Do you think a modified version of Special Condition 2B is required for NGET?**

~~1. Any information relating to or deriving from the management or operation of the Transmission Business shall, for the purposes of this condition, be treated as confidential information;~~

~~2. The licensee shall not (and shall procure that its affiliates and related undertakings shall not) disclose or authorise access to confidential information:~~

~~(a) save to the extent provided by sub-paragraphs 3(b) to (d), to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of any other business (whether or not a separate business) of the licensee; or~~

~~(b) save to the extent permitted by paragraph 3, to any other person;~~

~~3. The licensee shall (and shall procure that its affiliates and related undertakings shall) disclose or authorise access to confidential information only;~~

~~(a) in the following circumstances, namely;~~

~~(i) to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of the Transmission Business and require access to the information for that purpose;~~

~~provided that effective arrangements are maintained in place at all times for ensuring that no further disclosure of any information supplied or obtained pursuant to this paragraph is made and that such information is used only for the purpose of the Transmission Business of the licensee;~~

~~(b) where the licensee (or any affiliate or related undertaking of the licensee) is required or permitted to disclose such information by virtue of:~~

~~(i) any requirement of a competent authority;~~

~~(ii) the standard conditions of any licence granted or taking effect as if granted under the Act or any document referred to in such a licence with which it is required by virtue of the Act or that licence to comply;~~

~~(iii) any other requirement of law; or~~

~~(iv) the rules of the Electricity Arbitration Association or of any judicial or other arbitral process or tribunal of competent jurisdiction;~~

~~(c) where such information was provided by or relates to any person who has notified (or otherwise agreed with) the licensee that it need not be treated as confidential;~~

~~(d) where such information, not being information provided by or relating to any person other than the licensee, is placed by the licensee in the public domain; or~~

~~(e) where such information is required for the purposes of assisting other transmission licence holders, including National Grid Company plc in the capacity of the party who has been identified by the Minister for Energy as the party whose application to be GB System Operator the government is minded to accept, to prepare for and plan and develop the operation of a GB transmission system and such other matters as will facilitate the implementation of new arrangements relating to the trading and transmission of electricity in Great Britain designed —~~

~~(i) to promote the creation of a single competitive wholesale electricity trading market; and~~

~~(ii) to introduce a single set of arrangements for access to and use of any Transmission System in Great Britain;~~

~~and in each case the licensee shall disclose or authorise access to the confidential information only insofar as is necessary or appropriate in all the circumstances.~~

~~4. The licensee shall use all reasonable endeavours to ensure that any person who is in possession of or has access to confidential information in accordance with subparagraph 3(a) shall use such information only for the purposes of the Transmission Business.~~

~~5. In this condition "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"

bears the meaning given at  
paragraph 1;

"Electricity Arbitration  
Association"

means the unincorporated  
members' club of that name  
formed inter alia to promote the  
efficient and economic operation  
of the procedure for the resolution  
of disputes within the electricity  
supply industry by means of  
arbitration or otherwise in  
accordance with its arbitration  
rules;

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

**Note:** We are minded-to keep Special Condition 2C in NGET's licence **unchanged in respect to. This would effectively preventing** NGET from acquiring OFTO business. We note that 2C is not currently turned on for the Scottish TO licences, and that our position of turning 2C on for NGET is a variation from our principle of aligning NGET's licence with the Scottish TO licences as much as possible. However, we think that 2C is still necessary for NGET to prevent it from acquiring OFTO business. NGET is not currently able to acquire OFTO business, and the process of separating the TO and SO licences does not automatically grant this. We think that allowing NGET to acquire OFTO business would go beyond our core principle of only undertaking the minimal changes required for separation. We consider that such a change (on whether NGET should be able to hold an OFTO licence) will need further and targeted consultation which is outside the scope of this project.

**We have also updated the Conduct of the Transmission Business section of 2C to add a clear obligation on NGET TO not to make use of any information received from the ESO as a consequence of the ESO breaching its own information disclosure obligations.**

### Questions for stakeholders:

**Do you agree that Special Condition 2C should apply to NGET in its current form?**

**Do you agree that allowing NGET to acquire OFTO business is beyond the scope of the separation project?**

### 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 C (System Operator 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)~~(b) the licensee;

~~(b)~~(c) 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)~~(d) any user of the national electricity transmission system; or

~~(d)~~(e) 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. For the avoidance of doubt, in meeting its obligations in this paragraph the licensee shall make no use of or otherwise disclose any system operator functions information that it may have received from its affiliate, National Grid Electricity System Operator Limited ("NGESO"), by virtue of NGESO disclosing such information to the licensee arising from a failure to abide by the provisions of Special Condition 20 of NGESO's transmission licence. System operator functions information shall have the meaning given to it in Special Condition 20 of NGESO's transmission licence.





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~~ Not Used

**Drafting Change:** Special Condition 2F (Role in respect of the National Electricity Transmission System Operator area located in offshore waters) will not apply to NGET, as it is an SO obligation.

**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**

~~\_\_\_\_\_ 6. \_\_\_\_\_~~

**Part D: Not used**

~~\_\_\_\_\_ 20. \_\_\_\_\_~~

**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 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~~. Not Used

**Drafting Change:** Special Condition 2G (Prohibition on engaging in preferential or discriminatory behaviour) will not apply to NGET, as it is an SO obligation.

- ~~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.~~
- ~~2.— 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.~~
- ~~3.— 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 is closely linked to Special Condition 2B, as it details the requirements for the licence holder to appoint a Compliance Officer for the purpose of facilitating compliance with Special Condition 2B. As we are minded to keep a modified version of 2B in NGET's licence only, we are minded to keep a modified version of 2H in NGET's licence only as well. As we have proposed to delete Special Condition 2B in NGET's licence, we are proposing to delete Special Condition 2H in NGET's licence as well.

Questions for stakeholders:

Do you think a modified version of Special Condition 2H is required for NGET?

1. The licensee shall prepare a statement in a form approved by the Authority setting out the practices, procedures and systems which the licensee has adopted (or intends to adopt) to ensure its compliance with the relevant duties.

2. The licensee may periodically revise the information 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 information 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 of this condition, to the Authority.

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 the relevant duties.

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 of this condition, which duties and tasks shall include those set out at paragraph 8 of this condition.

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 practices, procedures and systems adopted by the licensee in accordance with the statement referred to at paragraph 1 of this condition.

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 of this condition;

(d) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;

(e) 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 of this condition; and

(ii) any remedial action recommended in accordance with sub-paragraph (d); and

(f) reporting annually to the directors of the licensee – in respect of the year ending 31 December 2001 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 of this condition 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 of this condition; and

(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;

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

12. In this condition: "relevant duties"

means the obligations set out in Special Condition 2B (Restriction on use of certain information);

Special Condition 21. Not used

## Special Condition 2J. Network Access Policy

### 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 to act consistently with a 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.

**Drafting Change:** Paragraph 2J.2 (b) has been updated to remove SO obligations and add TO obligations only.

- 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 D2 (Obligation to provide transmission services) and Standard Condition D3 (Transmission system security standard and quality of service) ~~G17 (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.6 The licensee must incorporate the NAP into its planning and operations within its licensed activities. It must act consistently with the NAP, subject to the need to ensure the safe and secure operation of the NETS as a whole or any part of it.

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

- 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/or 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 made by the System Operator and/or other Transmission Licensees.
- 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

### 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:

- (a) 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;
- (b) 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;
- (c) 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;
- (d) 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;
- (e) a summary of the licensee's asset replacement programmes and estimates of the impacts those programmes will have on Transmission Losses on the licensee's Transmission System; and

- (f) a description of the potential application of new and alternative technologies to the licensee's Transmission System during the Price Control Period and the impact these technologies may have in relation to Transmission Losses.

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:

- (g) 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;
- (h) 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
- (i) 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

### 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:

- (j) facilitates the achievement of the NOMs Methodology Objectives set out in Part B below;
- (k) enables the objective evaluation of the Network Output Measures set out in Part C below;
- (l) is implemented by the licensee in accordance with the provisions of Part D below; and
- (m) 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:

- (n) 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;
- (o) the assessment of historical and forecast network expenditure on the licensee's Transmission System;
- (p) 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;
- (q) 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
- (r) 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:

- (s) 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;
- (t) 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;
- (u) 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;
- (v) 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

- (w) 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:

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

- (z) 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
- (aa) 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:

- (bb) a statement of the proposed modification to the NOMs Methodology;
- (cc) 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;
- (dd) an explanation of any changes that the licensee has made to its modification proposal as a consequence of representations;
- (ee) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NOMs Methodology Objectives;
- (ff) 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;
- (gg) 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
- (hh) 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

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 under deliveries 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	1	12
4	Underground	Km	79.2	4.3	85.5	152.0



	Cable					
5	OHL conductor	Km	102	343	189	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	1	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
- (b) 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 RIIO Principles (a “justified material overdelivery”); or
- (c) 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 RIIO 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**

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

	<p>allowances</p> <p>The licensee shall benefit from the financing cost of delayed investment</p>	<p>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 underdelivery</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**

<b>Relevant Year</b>	<b>Allowed expenditure (£m 2009/10 prices)</b>
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. Provision of Information to the System Operator

**Drafting Change:** In NGET's existing licence, Special Condition 2N sets out NGET's licence obligations on Electricity Market Reform and its functions as Delivery Body for the Capacity Market. As part of separation, 2N (Electricity Market Reform) functions will be transferred across to the NGESO licence as they are an SO obligation. However, we are also minded to include a Special Condition 2N in NGET's licence which reflects the Scottish TO Licence Special Condition 2N, on Provision of Information to the System Operator. This reflects our intention to align NGET's licence with the Scottish TO licences as much as possible.

1. On or before 1 November of the relevant year t-1, the licensee shall notify the System Operator of its best estimate for the amounts  $\{TNGETt\}$  in respect of the relevant year t, where:

$\{TNGETt\}$  means an amount no more than  $\{NGETTOt\} - EXSt$

where

$\{NGETTOt\}$  means the allowed transmission owner revenue in the relevant year t calculated in accordance with Special Condition 3A (Restriction of Transmission Network Revenue); and

EXSt means the connection charges, if any, which are remunerated under Special Condition 3A in respect of connections made before the grant of this licence and for the avoidance of doubt, such charges may include charges for the operation and maintenance of the relevant connection

and where the aggregate of  $\{TNGETt\}$  and EXSt is equivalent to the Regulated Transmission Revenue of the licensee in relevant year t.

2. The licensee shall keep under review the estimates notified to the System Operator pursuant to paragraph 1 and, if at any time, the licensee reasonably considers that the value of  $\{TNGETt\}$ , notified to the System Operator will be

significantly different from the estimates previously notified to the System Operator, the licensee shall notify the System Operator of the updated value for  $TNGET_t$  as soon as reasonably practicable.

3. By 30 April of each relevant year  $t$ , the licensee shall provide the Authority with a statement showing the following:

(a) the value of  $TNGET_t$  notified to the System Operator in the relevant year  $t-1$  and the method of calculation including the values for  $EXSt$ ;

(b) the aggregate amounts of the licensee's connection charges in relevant year  $t-1$  which are remunerated under Special Condition 3A, identifying separately amounts in relation to connections made prior to the grant of this licence and amounts in relation to connections made after the grant of this licence;

(c) the aggregate amount of the licensee's connection charges in relevant year  $t-1$  which are not remunerated under Special Condition 3A; and

(d) the aggregate amount of the licensee's charges in relevant year  $t-1$  in respect of outage charges.

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

**Note:** We are considering including an amended version of Special Condition 20 for NGET that details business separation and compliance requirements. This would be similar to Special Condition 20 for NGESO, but relate only to TO activities and obligations. We are minded to include this requirement on NGET to ensure that all business separation and compliance requirements are reciprocated between NGET and NGESO – rather than placing the business separation requirements solely on NGESO. We welcome stakeholder views on whether a business separation licence condition is required for NGET.

Questions for stakeholders:

Do you think an amended version of Special Condition 20 for NGET is required for business separation requirements and compliance obligations?

20.1 The purpose of this condition is to set out the business separation requirements between the licensee and the the Relevant Other Competitive Businesses, ~~the licensee's obligations as to its conduct in performing its Relevant System Planning Activities,~~ and the process 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 Relevant System Planning Activities.~~ Part ~~B-A~~ sets out the business separation requirements between the licensee and the Relevant Other Competitive Businesses. ~~Part C sets out the obligations on the licensee to restrict the use of information that the licensee has access to through its Relevant System Planning Activities.~~ Part ~~D-B~~ sets out the compliance statement the licensee must publish to describe how it is meeting its specified duties, as defined in paragraph 20.2015. Part ~~E-C~~ 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 Relevant System Planning Activities~~

~~20.3—In 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 Relevant System Planning Activities.~~

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

20.43 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).

20.54 Without prejudice to the licensee's obligations under the conditions referred to in paragraph 20.43 and ~~Special Condition 2N (Electricity Market Reform)~~, the licensee must at all times conduct its licensed activities separately from the Relevant Other Competitive Businesses provided that nothing in Part BA 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).

20.56 The licensee must ensure that the Relevant Other Competitive 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 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

- (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 in any company which exercises or otherwise has control of any of the Relevant Other Competitive Businesses.

20.76 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.

20.78 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 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:

- (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).~~

20.98 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 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.

20.109 The licensee must ensure that the systems for the recording, processing or storage of data (including Relevant System Planning 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.

#### ~~Part C: Restrictions on the use of Relevant System Planning Information~~

~~20.11 The licensee must establish and maintain a code of conduct governing the disclosure and use of Relevant System Planning Information. The licensee must set out the code of conduct in the compliance statement, as provided for in paragraph 20.15.~~

~~20.12 The licensee must ensure that its employees, agents, contractors and advisers ensure that 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 20.13.~~

~~20.13 Paragraph 20.12 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 Relevant System Planning Activities;~~

(d) ~~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~~

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

~~20.14 The licensee must ensure that any 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 20.12 and 20.13.~~

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

20. **1510** 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 duties, as defined in paragraph 20. **1520**;
- (b) the proposed form of the compliance report, as provided for in paragraph 20. **272**; and

(c) the proposed form of the compliance certificate, as provided for in paragraph 20.283(d).

20.161 On receipt of the documents provided for in paragraph 20.150, or any revisions of them, as provided for in paragraph 20.127(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.

20.172 Following the Authority's approval of the documents provided for in paragraph 20.150, 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 duties as defined in paragraph 20.2015, 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 20.161.

20.183 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.

20.1<sup>94</sup> The compliance statement must in particular (but without prejudice to the generality of paragraph 20.1<sup>50</sup>) 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 **BA**, with specific reference to:
  - (i) the arrangements for managerial separation, as required in paragraph 20.7<sup>8</sup>;
  - (ii) the treatment of Shared Services across the licensee and the Relevant Other Competitive Businesses, together with a list of those services which fall under the definition of Shared Services;
  - (iii) the arrangements to manage the transfer of employees between the licensee and the Relevant Other Competitive Businesses;

~~(c) the restrictions on Relevant System Planning Information provided for in Part C;~~

- (d) the appointment of a compliance officer and compliance reporting, provided for in Part **EC**.

#### **Part **EC**: Appointment of a compliance officer and compliance reporting**

20.2<sup>015</sup> 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 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.

20.21-16 The licensee must appoint a Single Appointed Director, being a member of the managerial] board for the System Operator of the licensee, for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the compliance officer set out in paragraph 20.216 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.

20.22-17 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 20.261 and the compliance of the licensee with its specified duties. 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.

20.23-18 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 pursuant to this condition.

20.24-19 Except to the extent provided for in paragraph 20.1520, the licensee must ensure that the compliance officer is not engaged in the management

or operation of the Transmission Business, any Associate of the licensee or any Relevant Other Competitive Businesses.

20.25-20 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 duties.

20.26-21 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 duties;
- (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the specified 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 20.250;
- (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 20.1722, 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 subparagraph (e);
- (g) reporting to the compliance committee any instances which come to his 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.

20.27-22 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 20.1611, a report ("the compliance report"):

- (a) as to its compliance with the specified 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.

20.28-23 The compliance report produced in accordance with paragraph 20.2722 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.1611, approved by a resolution of the board of the licensee and signed in good faith by the Single Appointed Director pursuant to that resolution, on the licensee’s compliance with the specified duties. The compliance certificate should certify that, to the best of the Single Appointed Director’s knowledge, information and belief, having made due and careful enquiry, the report of the compliance officer fairly represents the licensee’s compliance with the specified duties.

2O.29-24 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.2722 and 2O.2823, and publish copies of each of them on its website.

20.30-25 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.

20.31-26 The Independent Examiner's report must be provided to the Authority within three working days of the licensee receiving it from the Independent Examiner.

20.32-27 The Independent Examiner's report must be commissioned at such intervals as the Authority may direct.



## Chapter 3: Transmission – Revenue Restriction

**Note:** The title of this condition has not been changed, but the condition now relates to the restriction on Regulated Transmission Revenue rather than Transmission Network Revenue. However, the title in the Scottish licences still refers here (and where cross referenced) to Transmission Network Revenue.

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

#### Introduction

**Drafting Change:** The term 'Maximum Revenue' has been replaced with 'Allowed Transmission Owner Revenue'. This will be defined in Special Condition 1A as per Scottish TO licences.

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

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

#### Part A: Licensee's obligation

**Drafting Change:** Transmission Network Revenue and TNRT will need to be retained (e.g. in part E, F and G) for the purposes of relevant years preceding 2019/20. A new term is therefore required in order to represent Regulated Transmission Revenue from 2019/20 onwards. In this draft NGETTNRT has been used.

Maximum Revenue and TOt will also need to be retained (e.g. in Part E, F and G) for the purposes of relevant years preceding 2019/20. A new term is therefore required in order to represent Allowed Transmission Owner Revenue from 2019/20 onwards. In this draft NGETTOt has been used.

3A.2 The licensee, in setting Transmission Network Charges, must use its best endeavours to ensure that, in Relevant Year t, Transmission Network Regulated Transmission Revenue (NETTNR<sub>t</sub>) does not exceed Maximum Revenue Allowed Transmission Owner Revenue (NETTO<sub>t</sub>) in that year.

**Part B: Calculation of Allowed Transmission Owner Revenue ~~Maximum Revenue~~ (NETTO<sub>t</sub>)**

3A.3 Allowed Transmission Owner Revenue ~~Maximum Revenue~~, in Relevant Year t, is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$\text{NETTO}_t = \text{BR}_t + \text{PT}_t + \text{OIP}_t + \text{NIA}_t + \text{NICF}_t + \text{TIRG}_t - \text{FIN}_t + \text{DIS}_t + \text{TS}_t - \text{K}_t$$

3A.4 In the Principal Formula:

**Drafting Change:** The term TO<sub>t</sub> has been renamed with NETTO<sub>t</sub>. The term NICF<sub>t</sub> has been removed as it will be recovered by NGESO under Special Condition 3A/3I. The terms DIS<sub>t</sub> and TS<sub>t</sub> have also been removed as they apply to NGESO. **FIN<sub>t</sub> has been added to reflect the allocation of costs of the NGESO financing facility (see also Appendix 2 of this condition)**

NETTO<sub>t</sub> means the amount of Allowed Transmission Owner Revenue ~~Maximum Revenue~~ in Relevant Year t.

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

PT<sub>t</sub> means the 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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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.

**FIN<sub>t</sub>** means the amount set out against the licensee's name in Appendix 2 of this condition and represents the costs relating to the NGESO financial facilities in Relevant Year t transferred as agreed with the Authority

~~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 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.~~

~~TS<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, SP Transmission Ltd 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 GB transmission system in the respective Transmission Areas of each of Scottish Hydro Electric Transmission Plc, SP Transmission Ltd and any Offshore Transmission Owner (for the avoidance of doubt, including any amounts that are treated as capital contributions).~~

K<sub>t</sub> means the correction term in Relevant Year t as derived in accordance with the formula set out in Part E of this condition.

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

3A.5 For the purposes of the Principal Formula, BR<sub>t</sub> is derived in accordance with the following formula:

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

3A.6 In the above formula for BR<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.

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

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

where:

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



$RPI_{2009/10}$  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:

$GRPIF_c$  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,  $TRU_t$  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  $TRU_t$ :

$REV_{t-2}$  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.

$PVF_t$  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  $PVF_{t-1}$  and  $PVF_{t-2}$  will be interpreted accordingly.

3A.10 For the purposes of paragraph 3A.9 of this condition, subject to paragraph 3A.11,  $REV_{t-2}$  is derived in accordance with the following formula:

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

where:

- $BR_{t-2}$  means the Base Transmission Revenue in Relevant Year t-2 as derived in accordance with the formula set out in this Part C.
- $RB_{t-2}$  means the business rate adjustment in Relevant Year t-2 as derived in accordance with Part B of Special Condition 3B.
- $LF_{t-2}$  means the licence fee adjustment in Relevant Year t-2 as derived in accordance with Part C of Special Condition 3B.
- $ITC_{t-2}$  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.
- $TPD_{t-2}$  means the temporary physical disconnection adjustment in Relevant Year t-2 as derived in accordance with Part D of Special Condition 3B.
- $RI_{t-2}$  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).

SFI <sub>t-2</sub>	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).
IPTIRG <sub>t-2</sub>	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.
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 1 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:

$$REV_{t-2} = \frac{PR_{t-2} + TOInc_{t-2} + IPTIRG_{t-2} + FTIRG_{t-2} + ETIRG_{t-2} + CXIncRA_{t-2}}{RPIF_{t-2} - PF_{t-2} - RV_{t-2} - ITV_{t-2}}$$

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<sub>t-2</sub>** 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<sub>t-2</sub>** 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<sub>t-2</sub>** 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.

#### **Part D: Calculation of outputs incentive revenue adjustment ( $OIP_t$ )**

**Note:** We have not added the  $CONADJ_t$  term here as per the Scottish licences (revenue adjustment in relation to timely connections derived from Special Condition 3G in the Scottish licences) as this would constitute reopening RIIO- T1.

3A.12 For the purposes of the Principal Formula, the amount of  $OIP_t$  is derived in accordance with the following formula:

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

3A.13 In the above formula for  $OIP_t$ :

$RI_t$  means the Reliability Incentive Adjustment as derived in accordance with Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied).

$SSO_t$  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).

SF <sub>t</sub>	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).
EDR <sub>t</sub>	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).

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

3A.14 For the purposes of the Principal Formula, subject to paragraph 3A.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:

**Drafting Change:** In TNR<sub>t-2</sub> and TO<sub>t-2</sub> the phrase has been added 'of this licence in the form in which it was in force at 31 March 2019' to show how maximum revenue was calculated prior to 1 April 2019.

TNR <sub>t-2</sub>	means the Transmission Network Revenue as defined in Special Condition 1A (Definitions and interpretation) <u>of this licence in the form in which it was in force at 31 March 2019</u> 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 <u>of this licence in the form in which it was in force at 31 March 2019</u> in respect of Relevant Year t-2.
I <sub>t</sub>	means the Average Specified Rate in Relevant Year t.

$PR_t$  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,  $K_t$  is derived in accordance with the following formula:

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

$TNR_{t-1}$  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.

$TO_{t-1}$  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.

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

$PRO_t$  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.16 In the Relevant Year 2014/15  $K_t$  will have the value zero.

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

3A.17 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:

- (a) 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
- (b) in all other cases  $PRO_t$  will have the value zero.

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

3A.19 Paragraph 3A.20 applies from 1 April 2016.

3A.20 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:

- (a) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Relevant Year t-1; and
- (b) 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**

3A.21 Paragraph 3A.22 applies from 1 April 2016.

3A.22 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 is less than 90.5 per cent of the Maximum Revenue for those Relevant Years, the licensee:

- (a) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Relevant Year t-1; and
- (b) must use best endeavours in setting Transmission Network Charges to recover Maximum Revenue in Relevant Year t.



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

(see paragraph 3A.6 of this condition)

Licensee	PU (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission plc	1342.281	1443.829	1475.593	1571.387	1554.942	1587.627	1585.228	1571.584

**Appendix 2**

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

(see paragraph 3A.4 of this condition)

Licensee		FIN (£m)							
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission plc	Financing cost	⋮	⋮	⋮	⋮	⋮	⋮	[tbc]	[tbc]
National Grid Electricity Transmission plc	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 Allowed Transmission Owner Revenue ~~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 terms  $Term_t$ ,  $TSP_t$ ,  $TSH_t$ ,  $TOFTO_t$ ,  $OFET_t$ ,  $TICF_t$  and  $TICP_t$  have been removed from the Principal Formula.

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”):

$$PT_t = RB_t + LF_t + TPD_t + ITC_t + \text{Term}_t + TSP_t + TSH_t + TOFTO_t + OFET_t + TICF_t + TICP_t$$

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.

$ITC_t$  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.~~

~~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.~~

~~TIGF<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.~~

~~TIGP<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 2013/14 and 2014/15 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<sub>t</sub> term in the specific Relevant Year and in each of the subsequent Relevant Years.

## **Part C: Calculation of the licence fee adjustment term (LF<sub>t</sub>)**

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 2013/14 and 2014/15  $LF_t$  will have the value zero.

#### **Part D: 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:

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

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 [in accordance with the provisions of the STC as defined in](#)

Standard Condition A1.

- RPIA<sub>t-2</sub> has the value given to it by Part C of 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.14 In the Relevant Year 2013/14 TPD<sub>t</sub> will have the value zero.

**Part E: Calculation of the inter-transmission system operator compensation mechanism term (ITC<sub>t</sub>)**

3B.15 For the purposes of the Principal Formula, subject to paragraph 3B.17 of this condition, the value of ITC<sub>t</sub> is derived in accordance with the following formula:

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

3B.16 In the above formula for ITC<sub>t</sub>:

- ITP<sub>t-2</sub> 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<sub>t-2</sub> 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.17 In the Relevant Years 2013/14 and 2014/15 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 plc	73.453	66.884	66.882	66.883	66.882	66.882	66.882	66.882

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

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

Licensee	LFE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission plc	12.794	12.794	12.794	12.794	12.794	12.794	12.794	12.794

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

(see paragraph 3B.16 relating to the ITA term)

Licensee	ITA (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21





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

### 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.Stakeholder Satisfaction Output

**Note:** We have considered whether the Stakeholder Satisfaction Output relates to TO or SO activities (or both), and are minded to keep Special Licence Condition 3D in NGET's licence post-separation as the incentive relates primarily to TO activities. We are minded to remove any links to SO activities that currently exist in the TO's survey base for calculation of the incentive, thereby ensuring that the incentive is calculated on TO performance only. ~~We note that further licence drafting changes may be needed to reflect this. We welcome stakeholder views on whether the Special Condition 3D should be included in NGET's licence only.~~

~~Questions for stakeholders:~~

~~Do you think that Special Condition 3D should be included in NGET's licence only?~~

### 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 ( $SSO_t$ ) term.

3D.2 The effect of the application of the  $SSO_t$  term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust the amount of the Output Incentive Revenue Adjustment ( $OIP_t$ ) 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  $SSO_t$  term is derived in accordance with the following formula:

$$SSO_t = (SER_{t-2} + SSS_{t-2}) \times \left(1 + \frac{I_{t-2}}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

where:

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

3D.4 For Relevant Years 2013/14 and 2014/15, SSO<sub>t</sub> 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:

$$\text{SER}_{t-2} \text{ max} = 0.005 \times (\text{BR}_{t-2} + \text{TIRG}_{t-2})$$

3D.6 The value of the BR<sub>t-2</sub> 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<sub>t-2</sub> 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:

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



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  $CSSP_{t-2} > CSST$ :

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

If  $CSSP_{t-2} < CSST$ :

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

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.

$SSSAF_{t-2}$  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  $SSSP_{t-2} > SSST$ :

$$SSSAF_{t-2} = \min \left( SSSUPA, SSSUPA \times \left[ \frac{SSSP_{t-2} - SS}{SSSCAP - SSS} \right] \right)$$

If  $SSSP_{t-2} < SSST$ :

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

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%.

$SSSP_{t-2}$  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.

$CSSPRO_{t-2}$  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	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
----------	---------	---------	---------	---------	---------	---------	---------	---------

year t								
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:

$$\text{SSSPRO}_t = 0$$

In Relevant Years 2016/17 and 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.15 of this condition and provide feedback to the licensee.

## Special Condition 3E. Incentive in Respect of Sulphur Hexafluoride (SF<sub>6</sub>) Gas Emissions

### 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 <sub>t-2</sub>	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 <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 this condition.
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.

**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 <sub>t-2</sub>	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. Adjustment in Respect of the Environmental Discretionary Reward Scheme

**Note:** We are minded to include 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme) in the NGET licence only, as this would align with the Scottish TO stakeholder incentive. We ~~would~~ will update the Environmental Discretionary Reward guidance to remove links to SO activities so that the reward is calculated purely on TO activities. ~~However, we welcome stakeholder views on this proposal.~~ Please note, our proposal to keep Special Condition 3F in NGET's licence only will not change the RIIO-T1 settlement.

### Question for Stakeholders:

~~Do you agree with our proposal to keep Special Condition 3F in NGET licence only? This includes updating the EDR guidance so that the reward is calculated solely on TO activities.~~

## 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  $EDR_t$  term; and
- (b) to make provision for arrangements relating to administration, governance and revision of the EDR Scheme.

3F.2 The effect of the application of the  $EDR_t$  term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust upwards the amount of the Output Incentive Revenue Adjustment ( $OIP_t$ ) 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:

- (a) 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;

- (b) the Authority's process for assessing any submission made by the licensee, including assessment criteria, the scoring associated with the different performance areas and the appointment and role of any expert panel incorporated in the EDR Scheme process;
- (c) the process by which the Authority will determine the EDR<sub>t</sub> term for Relevant Year t including any reward allocation rules in relation to the licensee's overall level of performance;
- (d) the procedures by which the Authority will notify the licensee with respect to any direction in relation to the EDR<sub>t</sub> term; and
- (e) any other matters relating to the administration and governance of the EDR Scheme which appear to the Authority to be appropriate.

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

**Note:** The purpose of this condition is to calculate the value of the Network Innovation Allowance (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. The NIA is a set allowance that each of the RIIO network licensees receive to fund smaller scale innovative projects. Under the current arrangements, the NIA provides funding equivalent to 0.7% of NGET's allowed revenue. Licensee's can recover 90% of the costs of projects from customers through this mechanism.

We have considered whether the NIA should apply to NGET, NGESO, or both, as part of separation. We think that the NIA is still relevant for both NGET and NGESO, and **are have** therefore **minged to** included **d** amended versions of Special Condition 3H in both licences. We **are minged to will** allocate funding equivalent to 0.7% of NGET's allowed revenue across the NGET and NGESO licences. Under the current arrangements for NGET, the SO is allocated a portion of this for separate projects as set out in Final Proposals.

We **are minged to will** assign 0.5% of NGET revenue to the NGET licence to be consistent with the minimum level of funding available to any TO in the existing RIIO-T1 deal. This would allow NGET to continue its current level of spending on NIA projects.

We **are minged to will** assign the remaining 0.2% of NGET revenue to the NGESO licence. This would allow the ESO to continue its current level of spending on NIA projects.

**The drafting proposed below. The considered approach on how to** achieves this **is to by** linking **ing** the NGESO incentive licence term to NGET revenue.

**Note: the changes in Part B to the BPC; term reflect modification diection on 18/07/2017. The text used in our previous consultation was not up to date.**

**We are considering what licence changes are needed to best effect this proposal. We welcome stakeholder views as to whether they agree with our proposal for the NIA as part of separation.**

**Question for stakeholders:**

~~Do you agree with our proposal for amending Special Condition 3I (Network Innovation Allowance), to assign 0.5% of NGET revenue to the NGET licence and the remaining 0.2% of NGET revenue to the NGESO licence?~~

~~**Note:** The licence drafting below has been struck through as a modified version of Special Condition 3H will be included for NGESO post-separation (as opposed to being completely removed from the licence). The licence was struck through in the previous draft. We have reinstated this and highlighted any changes below.~~

## 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 Allowed ~~Maximum~~ Transmission Owner 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<sub>t</sub> 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<sub>t</sub> 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:

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

where:

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

ENIA<sub>t</sub> means the Eligible NIA Expenditure for Relevant Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with 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. (provided that, w/v here 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  $BPC_t$  for Relevant Years  $t = 2013/14$  to 2017/18 is the lower of: be more than

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), whichever is less in the For Relevant Year 2018/19 and in subsequent Relevant Years  $BPC_t$  will have the value zero, except insofar as the Authority consents otherwise).

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

BR<sub>t</sub> means the Base Transmission Revenue in Relevant Year t, and is derived in accordance with Part B of Special Condition 3A and is notified to National Grid System Operator Limited on or before 1 calendar week after 30<sup>th</sup> November of the relevant year t-1.

3H.7 For the purposes of the NIA, the Eligible NIA Internal Expenditure ( $NIAIE_t$ ) 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:

$NIAIE_t$  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  $NIAR_t$  that will reduce the licensee's NIA revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

**Part D: The NIA Governance Document**

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:

- (a) the eligibility criteria, which projects must meet, which the licensee confirms projects conform to before Eligible NIA Projects can be started;
- (b) the information that is to be published by the licensee before Eligible NIA Projects can be started;
- (c) the circumstances in which the licensee will require permission from the Authority before beginning an Eligible NIA Project;
- (d) the processes and procedures that will be in place for the assessment and approval (where necessary) of such projects described in paragraph 3H.10(c) of this condition;
- (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;
- (f) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);
- (g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and

- (h) any other matters relating to the regulation, governance or administration of the NIA.

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 Electricity Transmission plc	9.70.5

## Special Condition 3I. The Network Innovation Competition

### Note:

**Note:** The purpose of Special Condition 3I is to establish the Network Innovation Competition (NIC). The NIC is a competition that can provide funding for larger development and demonstration projects. There are currently two versions of the NIC condition, one for NGET and one for the two Scottish TOs. NIC funding for all projects is currently recovered under Part D: Determination of the NICF Term in NGET's licence. NGET then transfers sums to other licensees as directed by the Authority.

We are minded to keep Special Condition 3I in in both NGET and NGESO's licence, as both licensee's will be able to participate in the NIC post-separation.

~~However, we are considering what amendments need to be made to the licence drafting to effect this.~~

~~We have decided to~~ One option would be to leave the drafting for Special Condition 3I unchanged in the NGESO licence, while and amend NGET's licence ~~drafting would be amended~~ to reflect the drafting of Special Condition 3I used in the Scottish TO licences.

~~Another option would be to leave the drafting for Special Condition 3I unchanged in NGET's licence, while NGESO's licence drafting would be amended to reflect the drafting of Special Condition 3I used in the Scottish TO licences.~~

~~We welcome stakeholder views as to whether the NIC should apply to both NGET and NGESO going forward, and how the licence drafting should be amended to effect this.~~

### Question for Stakeholders:

~~Do you think both the NGESO and NGET should participate in the NIC going forward? How should the licence drafting be amended to effect this?~~

**Note:** ~~The licence drafting below has been struck through as a modified version of Special Condition 3I will be included for NGESO post-separation (as opposed to being completely removed from the licence).~~

## Introduction

31.1 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 carried out by the licensee.

~~31.2 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.~~

~~31.3~~ 31.2 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

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

~~31.4~~ 31.3 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the ~~licensee~~ System Operator 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.

~~31.5 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.~~

~~31.6 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

~~31.7~~ 31.4 The NIC Funding Mechanism is the mechanism by which the licensee ~~recovers~~ receives the amount of authorised NIC Funding in any Relevant Year

~~from the System Operator , less any Funding Return as described in Part C of this condition and 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**

~~31.931.5~~ The Funding Return Mechanism relates to payments to be made by the licensee to the System Operator 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 in each of the following cases 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

~~31.1031.6~~ 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 31.95 of this condition.

~~31.1131.7~~ Halted Project Revenues are revenues received by the licensee from the System Operator (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.

~~31.1231.8~~ Disallowed Expenditure is any revenue received by the licensee from the System Operator (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~~31.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the Licensee (~~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.

31.10 For the purposes of paragraph ~~31.9~~31.10 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the Licensee (~~whether undertaken by the licensee or any other Transmission Licensee or Electricity Distribution Licensee~~) that have not been otherwise remunerated through Base Transmission Revenue as defined in Special Condition 3A, 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.

~~31.14~~31.11 Returned Project Revenues are:

- (a) revenues received by the licensee from the Transmission System Operator 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 by the licensee other than Returned Royalty Income, that the Authority determines are payable to customers.

~~31.15~~31.12 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.

31.13 In each Relevant Year t, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:

- a) The amount of any Funding Return that the licensee must pay to the System Operator; and
- a)b) The manner in which and the timetable over which the amount is to be so paid.

~~31.16~~31.14 The licensee must comply with any direction that is issued by the Authority under paragraph 31.13 of this condition

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

~~31.17~~31.15 The NICF term is the net amount of NIC Funding less any Funding Return for the Relevant Year t that is to be paid to recovered by the licensee by the System Operator, or vice versa, in compliance with the determination made for that purpose in a direction issued by the Authority pursuant to the provisions of Part D of Special Condition 31 (The Network Innovation Competition) in the Transmission Licence held by the System Operator . on behalf of itself or other electricity Transmission Licensees and Electricity Distribution Licensees, as determined by the Authority under paragraph 31.16 in relation to:

- (d) the NIC Funding specified for that year; and
- (e) any Funding Return specified for that year.

~~31.18~~31.16 The NIC Funding to which paragraph 31.4 of this condition refers is the proportion (if any) of total NIC Funding raised by the System Operator from its Transmission Network Charges in accordance with the NIC Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible NIC Projects, as adjusted by the amount of any Funding return (as to which, see Part C above). 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.~~

31.17 In each Relevant Year t, as provided for by the NIC Governance Document and in accordance with the appropriate provisions of the System Operator's Transmission Licence, the Authority will calculate and then, by direction given to the licensee and other electricity Transmission , will specify, in accordance with the appropriate provisions set out in the NIC Governance Document:

- (af) the net amount of the NIC term (whether negative or positive);
- (eb) how the amount of that term has been calculated, taking account of any Funding Return; and
- (ch) the manner in which and the timescale over which the System Operator is required to transfer the amounts to the licensee and vice versa.

~~The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 31.16 of this condition.~~

## Part E: The NIC Governance Document

~~31.19~~31.18 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.

~~31.20~~31.19 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
- (b) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);
- (c) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
- (d) arrangements to ensure that relevant 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.

~~31.21~~31.20 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**

~~31.22~~31.21 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.

~~31.23~~31.22 The Authority will consider any representations that are duly made and not withdrawn.

~~31.24~~31.23 The requirements of paragraphs 31.21 and 31.22 of this condition may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

~~31.25~~31.24 In paragraph 31.21 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**

~~31.26~~31.25 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. Transmission Investment for Renewable Generation

### 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:

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

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.

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

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  $IPTIRG_t^i$  will be calculated in accordance with the following formula:

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

where:

$CFTIRG_t^i$  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≤-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

- (a) 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  $p \leq -1$ ) ( $CFTIRG_t$ ) 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  $TIRGIncAd_t^i$  income adjustment allowance for the transmission investment project i and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.
- (h) For the purposes of paragraph 3J.2, the term  $TIRGIncAd_t^i$  will be the  $TIRGIncAd_t^i$  income adjustment allowance for the transmission investment project i determined by the Authority under subparagraph (d), and where the Authority has not made a determination under subparagraph (d) 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  $FTIRG_t^i$  will be calculated in accordance with the following formula:

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

where:

**CCTIRG** means the pre-tax cost of capital in real terms for the transmission investment project i for each TIRG Relevant Year t and for the purposes of this Special Condition will take the value of eight point eight per cent (8.8%);

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

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

$AFFTIRG_t^i$  means one or more adjustment to the average asset value for the transmission investment project i for the TIRG Relevant Years t=0 to t=n ( $FTIRGC_t^i$ ) as a result of a TIRG Asset Value Adjusting Event and each adjustment will be determined by the Authority in accordance with paragraph 3J.6 of this condition;

$RPIF_t$  has the value given to it by Part C of Special Condition 3A (Restriction of Transmission Network Revenue);

$FTIRGDepn_t^i$  means the depreciation value for the transmission investment project i for each of the TIRG Relevant Years t=0 to t=n and will be determined as follows:

- (i) where the licensee has not been granted planning consent to build the transmission investment project i,  $FTIRGDepn_t^i$  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  $t=n$  ( $FTIRGC_t$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
  - (iv) the reasons why the licensee considers that the costs and/or expenses cannot otherwise be recovered under the TIRG revenue allowance provided by this Special Condition;
  - (v) the amount of any  $AFFTIRG_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRG_t^i$  adjustment has been calculated;
  - (vi) the amount of any increase or decrease in the depreciation value for the transmission investment project  $i$  for the TIRG Relevant Years  $t=0$  to  $t=n$  ( $FTIRGDepn_t^i$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
  - (vii) the amount of any  $AFFTIRGDepn_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRGDepn_t^i$  adjustment has been calculated; and
  - (viii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority 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  $\text{AFFTIRG}_i^i$  adjustment in respect of the transmission investment project  $i$ ; and
  - (iv) a  $\text{AFFTIRGDepn}_i^i$  adjustment in respect of the transmission investment project  $i$ ;
- (f) Where the Authority determines under subparagraph (e) that a TIRG Asset Value Adjusting Event has occurred in respect of the transmission investment project  $i$  and that the transmission investment project  $i$  will remain economically efficient as a consequence of that TIRG Asset Value Adjusting Event, the  $\text{AFFTIRG}_i^i$  and  $\text{AFFTIRGDepn}_i^i$  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  $\text{AFFTIRG}_i^i$  and  $\text{AFFTIRGDepn}_i^i$  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  $\text{AFFTIRG}_i^i$  and  $\text{AFFTIRGDepn}_i^i$  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  $\text{AFFTIRG}_i^i$  and  $\text{AFFTIRGDepn}_i^i$  will be the  $\text{AFFTIRG}_i^i$  and

AFFTIRGDepn<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<sup>i</sup> will be calculated in accordance with the following formula:

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

where:

CCTIRG will have the meaning given in paragraph 3J.5 of this condition.

ETIRGC<sup>i</sup><sub>t</sub> means the average asset value for the transmission investment project i for each of the TIRG Relevant Years t=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<sup>i</sup> means an adjustment factor to the average asset value for the transmission investment project i for each of the TIRG Relevant Years t=n+1 to t=n+5 (ETIRGC<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<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<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<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<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 advisors, setting out:
  - (i) the  $TIRG_{t=0}$  output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project  $i$ ; and
  - (ii) the  $TIRG_{t=n}$  forecast output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project  $i$ ;
- (b) not later than three months after the end of each of the TIRG Relevant Years  $t=p$  to  $t=0$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a preconstruction expenditure report, accompanied by an auditor's statement, setting out an itemised report of the preconstruction expenditure incurred for the transmission investment project  $i$  during that TIRG Relevant Year  $t$ ;
- (c) not later than three months after the end of each of the TIRG Relevant Years  $t=1$  to  $t=n$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a construction expenditure report accompanied by an auditor's statement, setting out an itemised report of the construction expenditure incurred for the transmission investment project  $i$  during that TIRG Relevant Year  $t$ ; and
- (d) not later than three months after the end of TIRG Relevant Year  $t=n$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):
  - (i) a post construction expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission

investment project i, assessed against the average asset value for the transmission investment project i for TIRG Relevant Years  $t=0$  to  $t=n$  ( $FTIRGC_t$ ); and

- (ii) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Annex A to this condition.

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.

- (a) 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.
- (b) Where the licensee considers, and can provide supporting evidence that, an Output Measures Adjusting Event has occurred in relation to the transmission investment project i, then the licensee 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).
- (c) 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:

Project costs (£ 000) 2009/10 prices	t=p	t=0	t=1	t=2	t=3	t=n
Forecast pre-construction and contingency costs  (CFTIRGC <sup>t</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>t</sup> )	n/a	6,987,000	28,144,000	59,111,000	91,018,000	101,708,000
Depreciation during Construction  (FTIRGDepn <sup>t</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:

- (a) tee point to Scottish border (400kV circuit)
- (b) tee point to Stella West 400kV (400kV circuit)
- (c) tee point to Blyth 275kV (400kV circuit, and two 400/275kV transformers)

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

- (a) line A in series with (B' paralleled with C), where:
- (b) B' is line B in series with the existing 4 400/275kV transformers at Stella West.

<b>Scope of work</b>	<b>Impedance as at 31 March 2005</b>	<b>Forecast impedance prior to construction start date</b>	<b>Forecast impedance post construction</b>
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

<b>Scope of work</b>	<b>Circuit ratings as at 31 March 2005</b>		<b>Forecast circuit ratings prior to construction start date</b>		<b>Forecast circuit ratings post construction</b>	
	<b>Winter (MVA)</b>	<b>Summer (MVA)</b>	<b>Winter (MVA)</b>	<b>Summer (MVA)</b>	<b>Winter (MVA)</b>	<b>Summer (MVA)</b>
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**

<b>Project scope</b>	<b>Capability as at</b>	<b>Forecast</b>	<b>Forecast</b>
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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.

**Drafting Change:** Removed specification of either 'Relevant TO Special Conditions' or 'Relevant SO Special Conditions', to instead refer to 'Relevant Special Conditions'. This term will be defined in Special Condition 1A.

### 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 ~~licence 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 Business 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 the course of the Transmission Business ~~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 of the licensee 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. Pre-construction Engineering Outputs for prospective Strategic Wider Works

### 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 6I (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**

<b>Prospective Strategic Wider Works</b>	<b>Baseline expenditure £m (2009/10 prices)</b>
Eastern HVDC (additional transfer capability across multiple boundaries in northern England)	19.110
Wylfa - Pembroke HVDC (additional boundary transfer capability in northern Wales)	26.894

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:

- (a) 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
- (b) 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:

- (a) to assess whether a PE Output specified in Part A of this condition requires an OS (within the meaning of Part B); and, if so,
- (b) to approve the OS.

**(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:

- (a) the reasons for the request, along with relevant supporting evidence to justify the OS as being economical and efficient;
- (b) a description of any alternative PE Output the licensee proposes to deliver instead and the prospective SWW to which the PE Output relates; and
- (c) an estimate of the efficient costs of any alternative PE Output.

3L.11. The notice must also contain or be accompanied by:

- (a) 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
- (b) 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:

- (a) whether an OS for a PE Output specified in Part A of this condition is justified as being economical and efficient; and
- (b) the adjustment that is to be given effect through a modification under Part D of this condition in relation to the specified output.

**(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) [Not Used](#)

**Drafting Change:** Special Conditions Chapter 4 will not apply to NGET as it includes SO obligations only.

## Chapter 5: Price Control Financial Instrument

**Note:** 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 SOMOD have been removed as this applies to NGESO.

For the remainder of the RIIO-T1 period, NGET and NGESO will now each require a single National Grid representative to attend the ET1 Price Control Financial Model Working Group unless, on a case by case basis, Ofgem decides that separate ESO and TO perspectives are necessary.

### 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 terms 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

**Note:** We have added a few minor amendments to reference 'National Grid Electricity System Operator Limited' as opposed to NGESO.

### 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 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  $MOD_t$  and  ~~$SOMOD_t$~~  will be notified to the licensee in accordance with Part B of this condition.

### Part A: Steps comprising the Annual Iteration Process

**Note:** As we are not separating the TO and SO PCFMs, there will remain a link between the TO and 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 and SOMOD terms. Para 5B.13 implies that the MOD (or an interim MOD) can be calculated with only the licensee inputs. Therefore the PCFM requires updating for NGET Special Condition 6 inputs and NGESO Special Condition 7 inputs in order to calculate MOD. We have therefore

retained the reference to Special Condition 7 and where referring to Special Condition 7 it should be noted that this is an SO licence term.

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) and/or Special Condition 7A (Legacy price control adjustments – System Operator) of the Transmission Licence held by [NGESO]National Grid Electricity System Operator Limited;
- b) Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and/or Special Condition 7B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator) of the Transmission Licence held by [NGESO]National Grid Electricity System Operator Limited;
- c) Special Condition 6D (Specified financial adjustments – Transmission Owner) and/or Special Condition 7C (Specified financial adjustments – System Operator) of the Transmission Licence held by [NGESO]National Grid Electricity System Operator Limited;
- d) Special Condition 6E (The Innovation Roll-out Mechanism);
- e) Special Condition 6F (Baseline Generation Connection Outputs and Generation Connections volume driver);
- f) Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas);



- g) Special Condition 6H (Arrangements for the recovery of uncertain costs) and/or Special Condition 7D (Arrangements for the recovery of SO uncertain costs) of the Transmission Licence held by [NGESO] National Grid Electricity System Operator Limited;
- h) Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure);
- i) Special Condition 6J (Allowed Expenditure for Incremental Wider Works);
- j) Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver); and
- k) Special Condition 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver).

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  $MOD_t$  and  $SOMOD_t$  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  $MOD_t$  and  $SOMOD_t$  which is are to be used in the formulae set out in Special Conditions 3A and 4A for the purposes of ascertaining the values of the terms  $BR_t$  and  $SOBR_t$  respectively.

**Part B: Direction of the values of  $MOD_t$  and  $SOMOD_t$ :**

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 the 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:
  - i. the name of 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**

### **Special Condition 6A. Legacy price control adjustments – Transmission Owner**

#### **Introduction**

6A.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).

6A.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 MOD as calculated for Relevant Year t for the purposes of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the licensee's Base Transmission Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the licensee in respect of:

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

in Relevant Years prior to Relevant Year 2013/14 (the 'legacy period'), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.

- 6A.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).
- 6A.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 6A.2 are made using values for Relevant Year 2013/14.

**Part A: Determination and direction of revised PCFM Variable Values for Relevant Year 2013/14 relating to legacy price control adjustments**

6A.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) legacy price control revenue allowance adjustments (LAR values);  
and
- (b) legacy price control adjustments to RAV balance additions (LRAV values),

for Relevant Year 2013/14.

6A.6 The LAR and LRAV values for each Relevant Year are zero as at 1 April 2013.

6A.7 Subject to paragraph 6A.8 of this condition, the Authority will, by 30 November in each Relevant Year  $t-1$ :

- (a) determine whether any LAR or LRAV values for Relevant Year 2013/14 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.

6A.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6A.7 is Relevant Year 2013/14 for the Annual Iteration Process that will take place by 30 November 2013.

6A.9 Revisions to the LAR value for Relevant Year 2013/14 will be determined in accordance with the following formula:

$$\text{LAR} = \text{TAR} + \text{CAR} + \text{IAR} + \text{SAR}$$

where:

TAR means the revenue allowance adjustment in respect of the licensee's gearing levels and corporate debt interest costs in the legacy period, determined in accordance with Part B of this condition.

CAR means the revenue allowance adjustment in respect of the Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.

IAR means the revenue allowance adjustment in respect of transmission asset owner incentives scheme activity in the legacy period, determined in accordance with Part B of this condition and the provisions of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period).

SAR means the revenue allowance adjustment in respect of logged up and security costs in the legacy period, determined in accordance with Part B of this condition.

6A.10 Revisions to the LRAV value for Relevant Year 2013/14 will be determined in accordance with the following formula:

$$\text{LRAV} = \text{CRAV} + \text{IRAV} + \text{SRAV}$$

where:

CRAV	means the adjustment to the licensee's RAV balance additions in respect of the Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition;
IRAV	means the adjustment to the licensee's RAV balance additions in respect of transmission asset owner incentives scheme activity in the legacy period, determined in accordance with Part B of this condition; and
SRAV	means the adjustment to the licensee's RAV balance additions in respect of adjustments for logged up and security costs in the legacy period, determined in accordance with Part B of this condition.

6A.11 The effect of using revised LAR and LRAV 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 MOD 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 MOD will be retrospectively affected.

**Part B: Determination of component term values for the formulae set out in Part A**

6A.12 This Part provides for the determination of component term values for the formulae set out in Part A that are used to determine revisions to LAR and LRAV values for Relevant Year 2013/14.

6A.13 Subject to paragraph 6A.8, the Authority will, by 30 November in each Relevant Year t-1, determine the value of the following component terms:

- (a) TAR, in accordance with the methodology set out in Part 1 of chapter 15 of the ET1 Price Control Financial Handbook;
- (b) CAR and CRAV, in accordance with the methodology set out in Part 2 of chapter 15 of the ET1 Price Control Financial Handbook;
- (c) IAR and IRAV, in accordance with the methodology set out in Part 3 of chapter 15 of the ET1 Price Control Financial Handbook and the provisions of Special Condition 6B; and
- (d) SAR and SRAV, in accordance with the methodology set out in part 4 of chapter 15 of the ET1 Price Control Financial Handbook.

6A.14 The first Relevant Year in which the Authority will make determinations pursuant to paragraph 6A.13 is Relevant Year 2013/14, for the purpose of determining revisions to LAR and LRAV 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 legacy price control adjustments by the Authority**

6A.15 Subject to paragraph 6A.8, revised LAR values and LRAV 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, starting from 30 November 2013.

6A.16 Any direction issued under paragraph 6A.15 will include a statement of the component term values determined under Part B.

6A.17 Before issuing any directions under paragraph 6A.15, the Authority will give notice to the licensee of all of the values that it proposes to direct.

6A.18 The notice referred to in paragraph 6A.17 will:



- (a) state that any revised LAR and LRAV 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 LAR or LRAV values.

6A.19 The Authority will have due regard to any representations duly received under paragraph 6A.18, and give reasons for its decisions in relation to them.

6A.20 If, subject to paragraph 6A.8, for any reason in any Relevant Year  $t-1$ , the Authority does not make a required direction in relation to revised LAR and LRAV values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraph 5B.12 of Special Condition 5B, and in any case, before directing a value for  $MOD_t$  under that paragraph.

**Part D: Interpretation**

6A.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 6B. Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period**

### **Introduction**

6B.1 The purpose of this condition is:

- (a) to set out (in Part A of this condition) the values of, and/or basis and procedures for determining appropriate revisions to the values of the inputs to the calculation, in accordance with paragraph 6B.2 of this condition, of revisions to PCFM Variable Values relating to transmission asset owner incentives scheme activity in Relevant Years prior to the Relevant Year 2013/14 (the “legacy period”), in so far as this activity relates to Transmission Investment Incentives Projects;
- (b) to set out (in Part B of this condition) the basis and procedures for determining appropriate amendments to Project Details of a given Transmission Investment Incentives Project where a TII Asset Value Adjusting Event (TII AVAE) has occurred;
- (c) to set out (in Part C of this condition) the basis and procedures for determining appropriate amendments to forecast output measures of a given Transmission Investment Incentives Project where a TII Output Measures Adjusting Event (TII OMAE) has occurred;
- (d) to set out (in Part D of this condition) the basis on which information should be provided by the licensee to the Authority in relation to Transmission Investment Incentives Projects;
- (e) to set out (in Part E of this condition) the procedures for determining details in respect of additional Further Works; and
- (f) to set out (in Part F of this condition) the procedures for directing amendments to this condition to reflect determinations in line with the above.

6B.2 For the purposes of paragraph 6B.1(a) of this condition, the relevant PCFM Variable Values are the IAR and IRAV values which are determined in Special Condition 6A (Legacy price control adjustments – Transmission Owner) in line with the methodology set out in Part 3 of Chapter 15 of the ET1 Price Control Financial Handbook, with reference to the provisions of this condition.

6B.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of values (set out in Appendix 1 of this condition) of the TII Assumed Allowance for each TII Year, the TII Actual Allowance for each TII Year, the TII Initial Allowance for each TII Year, and the TII Allowance Adjustment for each TII Year;
- (b) the determination and direction of revisions to the values (set out in Appendix 1 of this condition) of the TII Actual Allowance for each TII Year and TII Allowance Adjustment for each TII Year;
- (c) the determination and direction of amendments to Project Details (set out in Appendix 2 of this condition) for Funded Pre-construction Works and/or Funded Construction Works on Scheduled Projects in the context of a TII AVAE;
- (d) the determination and direction of amendments to forecast output measures (set out in Appendix 2 of this condition) for Funded Construction Works on Scheduled Projects in the context of a TII OMAE;
- (e) the specification, or determination and direction, of details (set out in Appendix 2 of this condition) in respect of Further Works for one or more TII years; and
- (f) the specification (in Appendix 1 of this condition) of the value of the TII Provisional Revenue Adjustment Term, and the value of the relevant TII Sharing Factor to apply to a given Transmission Investment Incentives Project, for the purposes of the application of the capital expenditure incentive regime referred to in paragraph 6B.7(b) of this condition.

6B.4 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 MOD as calculated for the Relevant Year  $t$  for the purposes of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the licensee's Base Transmission Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance, adjustments attributable to the licensee in respect of:

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

in the legacy period, in so far as this activity relates to Transmission Investment Incentives Projects, in relation to the transmission asset owner incentives scheme referred to in Parts A and B of Special Condition 6A.

6B.5 This condition should be read and construed in conjunction with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Model), and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

6B.6 This condition refers to certain provisions under Special Condition D11 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) (the "legacy TII condition"), which was introduced into this licence on 1 April 2010 and subsequently amended from time to time before being superseded by this condition on the date on which this condition took effect in this licence. Where relevant, this condition retains the effect of certain provisions of the legacy TII condition in the form in which that condition was included in this licence as at 31 March 2013.

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

6B.7 Through the determination of IAR values and IRAV values under Special Condition 6A in line with the methodology set out in Part 3 of Chapter 15 of the

ET1 Price Control Financial Handbook, revenue adjustments and associated RAV adjustments may be made by the Authority, as a consequence of the Annual Iteration Process (and retaining the effect of the provisions of paragraphs 1C and 2A-2D of the legacy TII condition in the form in which that condition was included in this licence as at 31 March 2013), to reflect:

- (a) a true-up of the difference between the TII Assumed Allowance for a given TII Year and the TII Actual Allowance for the same TII Year; and/or
- (b) the application of the capital expenditure incentive regime on the difference between the expenditure incurred by the licensee in respect of Transmission Investment Incentives Projects for each TII Year and the TII Actual Allowance for the same TII Year.

6B.8 For the purposes of paragraph 6B.7 of this condition the TII Assumed Allowance and TII Actual Allowance for each TII Year will take the values given to their respective terms in Table 1 in Appendix 1 of this condition, where:

- (a) the value of the TII Actual Allowance is derived from the sum the TII Initial Allowance and the TII Allowance Adjustment for the same TII Year, which will take the values which are given to their respective terms in Table 2 of Appendix 1 of this condition; and
- (b) Tables 1 and 2 of Appendix 1 of this condition may be amended by the Authority in accordance with the provisions of Part F of this condition, to reflect the determination of revised values of the TII Allowance Adjustment in respect of one or more TII Years in accordance with paragraph 6B.11 of this condition.

6B.9 For the purposes of applying the methodology referred to in paragraph 6B.7(b) of this condition, the Authority will also take into account:

- (a) the value of the TII Provisional Revenue Adjustment Term given in Table 3 of Appendix 1 of this condition and which corresponds to the  $CxIncTO_t$  term in paragraph 1C(a) of the legacy TII condition; and

- (b) the relevant TII Sharing Factor specified in Table 5 of Appendix 1 of this condition to apply to each Transmission Investment Incentives Project for each TII Year.

6B.10 For the purposes of paragraphs 6B.7(a) and 6B.7(b) of this condition the revenue adjustment will be calculated so as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable:

- (a) the same as if the project-specific capital expenditure allowances reflected in the TII Actual Allowance in respect of a given TII Year n had been known and taken into account by the Authority in the legacy period for the purposes of setting the licensee's allowed revenue for that same TII Year n; and
- (b) the same as if the revenue adjustment made under paragraph 6B.7(b) of this condition had been taken into account by the Authority for the purposes of setting the licensee's allowed revenue for the Relevant Year commencing 1 April 2013.

6B.11 The Authority may, by 31 March 2014 (or such later date identified by the Authority in writing for the purposes of this paragraph before 31 March 2014), determine revised values of the TII Allowance Adjustment in respect of one or more TII Years to take account of:

- (a) the specification or adjustment of capital expenditure allowances for one or more TII Years in respect of Further Works in accordance with the provisions of Part E of this condition;
- (b) the determination of a TII AVAE in accordance with the provisions of Part B of this condition; and/or
- (c) any overlap with funding provided under any other revenue recovery arrangements.

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

6B.12 This Part (which should be read in conjunction with Appendix 2 of this condition) applies to Scheduled Projects only, and provides for a TII Asset Value Adjusting Event (TII AVAE) to have effect in relation to Funded Pre-construction Works

and/or Funded Construction Works on Scheduled Project i in respect of the TII Year 2012/13.

### **Description of TII AVAE**

6B.13 A TII AVAE means Relevant Additional Pre-construction Works or a Relevant Amendment to the Scope of Construction Works (as defined in Special Condition 1A (Definitions and Interpretation), that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the Scheduled Project i, where the Authority is satisfied that those costs and expenses:

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

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

6B.14 Where the licensee considers, and can provide supporting evidence that, a TII AVAE has occurred in relation to the Scheduled Project i, 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 by 30 June 2013 (or at such later date as the Authority notifies to the licensee for the purposes of this paragraph, taking into account the provisions of paragraphs 6B.11 and 6B.17).

6B.15 A notice provided under paragraph 6B.14 of this condition must give particulars of:

- (a) the event to which the notice relates and the reason(s) why the licensee considers that event to be a TII AVAE, identifying the Scheduled Project i to which the notice relates and including details of and reasons for the Relevant Additional Pre-construction Works and/or Relevant Amendment to the Scope of Construction Works (as appropriate);

- (b) the costs and/or expenses that the licensee can demonstrate 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;
- (c) the amount of any material increase or decrease in the total capital expenditure for the Scheduled Project i for TII Year 2012/13 that the licensee can demonstrate has occurred or is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
- (d) the reasons why the licensee considers that the increase (where applicable) in costs and/or expenses cannot otherwise be recovered under the revenue allowance provided by this condition or any other provision within this Transmission Licence;
- (e) the amount of any adjustment proposed to the pre-construction cost allowance and/or construction cost allowance (as appropriate) specified in Appendix 2 of this condition in respect of the Scheduled Project i for the TII Year 2012/13 as a consequence of that event and how this adjustment has been calculated;
- (f) relevant internal papers where revised expenditure has been requested and relevant supporting information;
- (g) a statement from independent technical advisers setting out that in their opinion the Relevant Additional Pre-construction Works and/or Relevant Amendment to the Scope of Construction Works (as appropriate) as identified in the notice fairly reflect the TII AVAE and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses that have been incurred or saved by the Relevant Additional Pre-construction Works and/or Relevant Amendment to the Scope of Construction Works (as appropriate);
- (h) a statement on the impact of such an adjustment on the output measures associated with the Scheduled Project i and specified in Appendix 2 of this condition; and



- (i) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.

6B.16 Where the licensee notifies the Authority of a TII AVAE under paragraph 6B.14 of this condition, 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.

### **Determination by the Authority**

6B.17 Where the Authority receives a notice under paragraph 6B.14 of this condition, the Authority may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the event in order to reach a determination under paragraph 6B.18 of this condition. The Authority will take into account relevant information provided by the licensee for this purpose within one month of submission of the notice under paragraph 6B.14 of this condition (or such other date as the Authority notifies to the licensee for the purposes of this paragraph) before reaching a determination in accordance with paragraph 6B.18 of this condition in timescales which allow that determination to be taken into account by the Authority in making a determination under paragraph 6B.11 of this condition.

6B.18 Subject to the provisions of paragraph 6B.17 of this condition, and following consultation with such other parties as it considers may be affected by its determination, the Authority will determine:

- (a) whether a TII AVAE has occurred in respect of the Scheduled Project i; and
- (b) where the Authority determines that a TII AVAE has occurred in respect of the Scheduled Project i:
  - (i) whether the Scheduled Project i will remain economically efficient as a consequence of that TII AVAE; and
  - (ii) an adjustment to the pre-construction cost allowance and/or construction cost allowance (as appropriate) and associated key project milestones (as applicable) specified in Appendix 2 of this condition in respect of the Scheduled Project i for the TII Year

2012/13 that is to be given effect through a modification under Part F of this condition in relation to this paragraph.

6B.19 Where the Authority determines

- (a) under paragraph 6B.18(a) of this condition that a TII AVAE has occurred in respect of the Scheduled Project i; and
- (b) under subparagraph 6B.18(b)(i) of this condition that the Scheduled Project i will remain economically efficient as a consequence of that TII AVAE; then

the adjustments determined by the Authority under subparagraph 6B.18(b)(ii) to the pre-construction cost allowance and/or construction cost allowance (as appropriate) specified in Appendix 2 of this condition in respect of the Scheduled Project i for the TII Year 2012/13 will be such as to ensure that, when those adjustments are taken into account by the Authority in making a determination under paragraph 6B.11, the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if the TII AVAE had been known at the time of setting the pre-construction cost allowance and/or construction cost allowance (as appropriate) specified in Appendix 2 of this condition for the Scheduled Project i for the TII Year 2012/13.

### **Revocation**

6B.20 The Authority may revoke a determination made under paragraph 6B.18 of this condition following consultation with the licensee and may direct any consequential amendments to Appendix 2 following the procedure in Part F of this condition.

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

6B.21 This Part (which should be read in conjunction with Appendix 2 of this condition) applies to Scheduled Projects only, and provides for a TII Output Measures

Adjusting Event (TII OMAE) to have effect in relation to Funded Construction Works on a Scheduled Project i.

### **Description of TII OMAE**

6B.22 For the purposes of this condition, a TII OMAE means a Relevant Amendment to the Scope of Construction Works (as defined in Special Condition 1A (Definitions and Interpretation) which the Authority is satisfied is expected to cause a material change in the output measures specified in Appendix 2 to this condition for the Scheduled Project i.

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

6B.23 Where the licensee considers, and can provide supporting evidence that, a TII OMAE has occurred in relation to the Scheduled Project i, then the licensee 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 the commencement of relevant construction works (or at such later date as the Authority notifies to the licensee for the purposes of this paragraph, taking into account the provisions of paragraph 6B.25).

6B.24 A notice provided under paragraph 6B.23 of this condition must be accompanied by a statement from independent technical advisers setting out the amended scope of construction works and must give particulars of:

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

## **Determination by the Authority**

6B.25 Where the Authority receives a notice under paragraph 6B.23 of this condition, the Authority may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the event in order to reach a determination under paragraph 6B.26 of this condition. The Authority will take into account relevant information provided by the licensee for this purpose within one month of submission of the notice under paragraph 6B.23 of this condition (or such other date as the Authority notifies to the licensee for the purposes of this paragraph), alongside relevant information provided by the licensee under Part B of this condition in the context of any associated notice under paragraph 6B.14 of this condition in respect of the same Relevant Amendment to the Scope of Construction Works, before reaching a determination in accordance with paragraph 6B.26 of this condition.

6B.26 Subject to the provisions of paragraph 6B.25 of this condition, and following consultation with such other parties as it considers may be affected by its determination, the Authority will determine:

- (a) whether a TII OMAE has occurred in respect of the Scheduled Project i; and
- (b) where the Authority determines that a TII OMAE has occurred in respect of the Scheduled Project i, an adjustment to the output measures specified in Appendix 2 of this condition in respect of the Scheduled Project i that is to be given effect through a modification under Part F of this condition in relation to this paragraph.

## **Revocation**

6B.27 The Authority may revoke a determination made under paragraph 6B.26 of this condition following consultation with the licensee and may direct any consequential amendments to Appendix 2 of this condition following the procedure in Part F of this condition.

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

6B.28 This Part applies to all Transmission Investment Incentives Projects and sets out the basis on which information should be provided to the Authority. The provisions of this Part take into account information previously provided by the licensee to the Authority in relation to Transmission Investment Incentives Projects for one or more TII Years under paragraph 8 of the legacy TII condition.

6B.29 For each Transmission Investment Incentives Project i, the licensee must provide the Authority with the following in respect of Funded Pre-construction Works, Funded Construction Works and/or Further Works as applicable:

- (a) not later than 30 June 2013 (or such later date as the Authority may notify to the licensee):
  - (i) a pre-construction technical report, setting out the technical milestones achieved for Funded Pre-construction Works and/or Further Works on the Transmission Investment Incentives Project i in respect of the TII Year 2012/13 and, in the case of Funded Pre-construction Works, the extent to which the Transmission Investment Incentives Project i complies with the key project milestones (as applicable) specified in Appendix 2 of this condition for the relevant Scheduled Project i in respect of the TII Year 2012/13;
  - (ii) a pre-construction expenditure report, setting out an itemised report of the pre-construction expenditure incurred for Funded Pre-construction Works and/or Further Works on the Transmission Investment Incentives Project i in respect of the TII Year 2012/13;
  - (iii) a construction technical report, setting out the technical milestones achieved for Funded Construction Works and/or Further Works on the Transmission Investment Incentives Project i in respect of the TII Year 2012/13 and, in the case of Funded Construction Works, the extent to which the Transmission Investment Incentives Project i complies with the output measures and key project milestones (as

applicable) specified in Appendix 2 of this condition for the relevant Scheduled Project i; and

- (iv) a construction expenditure report setting out an itemised report of the construction expenditure incurred for Funded Construction Works and/or Further Works on the Transmission Investment Incentives Project i in respect of the TII Year 2012/13.
- (b) Not later than three months after the end of the financial year in which relevant pre-construction works on the Transmission Investment Incentives Project i are completed (or such later date as the Authority may notify to the licensee), an auditor's statement in respect of the pre-construction expenditure incurred by the licensee on the relevant Transmission Investment Incentives Project i and notified to the Authority in accordance with subparagraph 6B.29(a) of this condition or paragraph 8 of the legacy TII condition in the form in which that condition was included in this licence on the date on which such notification was provided.
- (c) Not later than three months after the end of the financial year in which relevant construction works on the Transmission Investment Incentives Project i are completed (or such later date as the Authority may notify to the licensee):
- (i) a post construction technical report, accompanied by a construction completion certificate from independent technical advisers, setting out the actual capability of the Transmission Investment Incentives Project i and, in the case of Funded Construction Works, the extent to which the Transmission Investment Incentives Project i complies with the output measures (as applicable) specified in Appendix 2 of this condition for the relevant Scheduled Project i; and
  - (ii) an auditor's statement in respect of the construction expenditure incurred by the licensee on the relevant Transmission Investment Incentives Project i and notified to the Authority in

accordance with subparagraph 6B.29(a) of this condition or paragraph 8 of the legacy TII condition in the form in which that condition was included in this licence on the date on which such notification was provided.

6B.30 The Authority may require the licensee to provide it with such information in such form and within such time as it may reasonably request which is, in the Authority's opinion, necessary in order to carry out any of its functions under this condition.

**Part E: Further works**

6B.31 Details of Further Works are specified in Table 4 of Appendix 1 of this condition. The TII Sharing Factor to apply to Further Works for the purposes of paragraph 6B.9 is specified in Table 5 of Appendix 1 of this condition.

6B.32 The Authority may determine amendments to Table 4 of Appendix 1 of this condition, that are to be given effect through a modification under Part F of this condition, in order to add details of additional Further Works provided those Further Works relate to Baseline Wider Works Outputs specified in Special Condition 6I (Specification of Baseline and Strategic Wider Works outputs and Assessment of Allowed Expenditure) or Strategic Wider Works Outputs determined under Part G of that condition.

6B.33 The Authority will take into account any determinations made under paragraph 6B.32 when making a determination under paragraph 6B.11 of this condition.

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

6B.34 The Authority may direct modifications to:

- (a) Appendix 1 of this condition in order to:
  - (i) reflect the determination of amendments to Table 1 and Table 2 of this condition to reflect revised values of the TII Allowance Adjustment in respect of one or more TII Years in accordance with paragraphs 6B.8(b) and 6B.11 of this condition; and/or

- (ii) reflect the determination of amendments to Table 4 to add details in respect of additional Further Works in accordance with paragraph 6B.32 of this condition,
- (b) Appendix 2 of this condition in order to amend Project Details in respect of:
  - (i) Funded Pre-construction Works and/or Funded Construction Works to reflect the determination of a TII AVAE in accordance with paragraph 6B.18 of this condition or the revocation of such a determination in accordance with paragraph 6B.20 of this condition; and/or
  - (ii) Funded Construction Works to reflect the determination of a TII OMAE in accordance with paragraph 6B.26 of this condition or the revocation of such a determination in accordance with paragraph 6B.27 of this condition.

6B.35 A direction issued by the Authority under paragraph 6B.34 of this condition is of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issues a direction under paragraph 6B.34 of this condition:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) specifying, where appropriate, any TII Allowance Adjustment that has been determined in accordance with Part A of this condition and the details determined in respect of Further Works in accordance with Part E of this condition;
  - (iii) specifying the time (which must not be less than a period of 28 days within which representations concerning the proposed direction may be made); and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

## **Part I: Interpretation**



6B.36 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.

**Appendix 1 to Special Condition 6B**

**Table 1: Inputs to calculation of IAR values (see paragraph 6B.7)**

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

**Table 2: Components of TII Actual Allowance (see paragraph 6B.8)**

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

**Table 3: TII Provisional Revenue Adjustment Term (see paragraph 6B.9)**

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

**Table 4: Further Works for which project-specific capital expenditure allowances are taken into account in setting TII Allowance Adjustment (see paragraph 6B.31)**

Further works			Capital expenditure allowance (£m 2009/10 prices) in respect of TII Year			
Transmission Investment Incentives Project	Works	Output	2009/10	2010/11	2011/12	2012/13
Western HVDC link	Construction works on WHVDC link	WHVDC output (Table 1 of Special Condition 6l)	0.000	0.000	15.500	83.000
Anglo Scottish Incremental	Construction works on series compensation at the Hutton substation	Series and Shunt Compensation (Table 1 of Special Condition 6l)				8.400

**Table 5: Sharing factor (see paragraph 6B.10)**

Works	Relevant sharing factor
All Funded Pre-construction Works	25%
All Funded Construction Works	25%
All Further Works	46.89%

## **Appendix 2 to Special Condition 6B**

This Appendix 2 sets out Project Details for Funded Pre-construction Works and Funded Construction Works (as applicable) in respect of Scheduled Projects. The identification of Scheduled Projects and specification of their Project Details in this Appendix 2 is based on the corresponding provisions of Annex A of the legacy TII condition in the form in which that condition was included in this licence as at 31 March 2013. The Authority may direct amendments to this Appendix 2 in accordance with the provisions of Part F of this condition.

## Anglo Scottish Incremental

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works
- Funded Construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	4.923	4.430	1.005
Construction cost allowance	0.000	0.000	30.861	31.128

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre-construction Works		<p><b>Series compensation</b> – provide evidence to show that:</p> <p>Pre-construction initial design works and site studies have been completed during 2010/11: provide evidence that single line diagrams, physical layouts and site proposals have been completed.</p>	<p><b>Series compensation</b> – provide evidence to show that:</p> <p>The planning permission and purchase of land, easements and wayleaves are progressing in line with completion of planning process during 2012/13.</p> <p><b>Shunt compensation</b> – provide evidence</p>	<p><b>Series compensation</b> – provide evidence to show that pre-construction works have been completed.</p> <p>This will include:</p> <ul style="list-style-type: none"> <li>• Confirmation that system studies have been completed</li> <li>• Single line diagrams and site layout diagrams</li> <li>• Confirmation that all consents</li> </ul>

		<p>Complete optioneering report to determine optimum mix between Series/Shunt compensation and determine optimum location for proposed compensation.</p> <p>Complete specialist studies in support of installation of series compensation (i.e. SSR studies).</p> <p><b>Reconductoring of Harker-Hutton-Quernmore Tee</b>– provide evidence to show that:</p> <p>Pre-construction works have commenced: Provide evidence to show that design works are progressing and that that a detailed programme for obtaining planning consents is available.</p>	<p>to show that:</p> <p>Pre-construction initial design works and site studies have been completed during 2010/11: provide evidence that single line diagrams, physical layouts and site proposals have been completed.</p> <p><b>Reconductoring of Harker-Hutton-Quernmore Tee</b>– provide evidence to show that:</p> <p>All pre-construction works have completed during 2011/12: Provide evidence of project design, route ID, site studies and environmental assessments. Confirm that planning consents are achieved.</p>	<p>are place</p> <ul style="list-style-type: none"> <li>• Confirmation that civil design works are complete.</li> </ul>
For Funded Construction Works			<p><b>Shunt compensation</b>– provide evidence to show that:</p>	<p><b>Shunt compensation</b>– provide evidence to show that:</p>

			<p><i>At Harker substation:</i></p> <p>All pre-construction works have progressed in accordance with detailed programme.</p> <p>Plant layout drawings, single line diagrams and outline civil design works are complete.</p> <p>Post-fault switching scheme is being developed in conjunction with SPT.</p> <p>MSCDN equipment has been ordered.</p> <p>Establish construction site offices/ working areas, fences, etc.</p> <p><i>At Stella West substation:</i></p> <p>All pre-construction works have progressed in accordance with detailed programme.</p> <p>Plant layout drawings, single line diagrams and outline civil design works are</p>	<p><i>At Harker substation:</i></p> <p>Detailed design is complete and construction drawings have been issued.</p> <p>Final design of the post fault switching scheme has been confirmed.</p> <p>A detailed construction programme for the installation of MSCs in 2013/14 is complete. Construction works are progressing in line with a commissioning date in 2014.</p> <p>All remaining equipment has been ordered.</p> <p><i>At Stella West substation:</i></p> <p>Detailed design is complete and construction drawings have been issued.</p> <p>Final design of the post fault switching scheme has been confirmed.</p> <p>A detailed construction programme for</p>
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			<p>complete.</p> <p>Post-fault switching scheme is being developed in conjunction with SPT.</p> <p>MSCDN equipment has been ordered.</p> <p>Establish construction site offices/ working areas, fences, etc.</p> <p><i>At Hutton substation:</i></p> <p>All pre-construction works have progressed in accordance with detailed programme.</p> <p>Plant layout drawings, single line diagrams and outline civil design works are complete.</p> <p>Post-fault switching scheme is being developed in conjunction with SPT.</p> <p>MSCDN equipment has been ordered.</p> <p>Planning Application for development of site has been submitted to</p>	<p>the installation of MSCs in 2013/14 is complete.</p> <p>Construction works are progressing in line with a commissioning date in 2014.</p> <p>All remaining equipment has been ordered.</p> <p><i>At Hutton substation:</i></p> <p>Detailed design is complete and construction drawings have been issued.</p> <p>Final design of the post fault switching scheme has been confirmed.</p> <p>A detailed construction programme for the installation of MSCs in 2013/14 is complete.</p> <p>Construction works are progressing in line with a commissioning date in 2014.</p> <p>All remaining equipment has been ordered.</p> <p><b>Reconductoring</b></p>
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			<p>Local Authority. Establish construction site offices/ working areas, fences, etc.</p>	<p><b>of Harker-Hutton-Quernmore Tee</b>– provide evidence to show that construction work has commenced and is progressing in line with the project programme.</p> <p>This will include:</p> <ul style="list-style-type: none"> <li>• Evidence to show all remaining site access consents are in place</li> <li>• Completion of site access accommodation works</li> <li>• Evidence that all materials have been ordered</li> <li>• Evidence that asset replacement of tower furniture has commenced</li> <li>• Evidence that asset replacement of step bolts has commenced</li> <li>• Evidence that all non-outage steelwork replacement has been completed.</li> </ul>
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### 3. Forecast output measures

Description of output measures for Funded Construction Works	By 31 March 2012	By 31 March 2013	Upon completion (if not completed by 31 March 2013)
Installation of shunt compensation at Harker (x2), Stella West (x2) and Hutton	Not complete.	Not complete.	Upon completion in 2013/14, increase in network capacity across the B6 boundary of 400MW.
Harker-Hutton-Quernmore Tee Reconductoring		Not complete.	The rating of this circuit should be improved to have a pre-fault winter rating of 2800MVA by 31 March 2014.

## Central Wales

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	1.181	1.772	2.009

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre-construction Works		<p><b>For the Central Wales-Ironbridge 400kV circuit and the Central Wales substation–</b> provide:</p> <p>A detailed programme for both elements of works by 1 April 2011.</p> <p>Evidence that planning consultations with relevant parties have commenced.</p>	<p><b>Central Wales substation –</b> provide evidence to show that:</p> <p>Project design is being progressed and that planning applications have been submitted to LPAs in line with programme.</p> <p><b>Central Wales-Ironbridge 400kV circuit–</b></p>	<p><b>Central Wales substation –</b> provide evidence to show that:</p> <p>Pre-construction work has progressed in line with programme.</p> <p><b>Central Wales - 400kV circuit –</b>provide evidence to show that:</p> <p>Pre-construction work has progressed in</p>

		<p>Provide evidence that route surveys are underway and that EIA surveys are progressing towards completion.</p> <p><b>Central Wales-Ironbridge 400kV circuit only</b> – provide a complete optioneering report.</p>	<p>provide evidence to show that:</p> <p>Evidence that the initial planning consultations with relevant parties have been completed.</p> <p>Planning application being prepared for submission to IPC.</p> <p>Project design is being progressed in line with completion of pre-construction works in 2013.</p>	<p>line with programme.</p>
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## East Anglia

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works
- Funded Construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	5.759	3.150	3.014
Construction cost allowance	2.093	34.506	72.159	53.243

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre-construction Works		<p><b>Reconductoring of Walpole-Norwich-Bramford 400kV circuit: Norwich-Walpole reconductoring</b> – provide evidence to show that:</p> <p>Pre-construction works are complete: Provide evidence to show that design works are completed and that planning consents are achieved.</p> <p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Plant layout drawings, single line diagrams and civil design works are complete. Provide evidence of 300kV GIS order.</p> <p><b>Quadrature boosters (QBs)</b> – provide evidence to show that:</p>	<p><b>Reconductoring of Walpole-Norwich-Bramford 400kV circuit: Norwich-Bramfordreconductoring</b> – provide evidence to show that:</p> <p>Reconductoring pre-construction works have been completed. Provide evidence of completion of design works and confirm status of required consents.</p> <p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Planning consents have been submitted and IP3 has been achieved/completed.</p> <p><b>Quadrature boosters (QBs)</b> – provide evidence to show that:</p>	<p><b>Bramford substation</b> – provide evidence to show that:</p> <p>All pre-construction work has been completed.</p> <p><b>Bramford-Twinstead tee 400kV circuit</b> - provide evidence to show that:</p> <p>Pre-construction work has progressed in line with programme.</p>

		<p>Optioneering report has been completed for the development of QBs at either Walpole/Norwich Bramford.</p> <p>A detailed programme has been produced for delivery of QBs in 2016/17.</p> <p>Pre-construction works have progressed in accordance with detailed programme, (design, single line diagram, site and routing studies, EIA, planning and IPC consents and land purchase/wayleaves) to begin construction works in 2016/17.</p> <p><b>Bramford- Twinstead tee 400kv circuit</b> – provide evidence to show that:</p> <p>An optioneering report has been completed.</p> <p>A detailed programme for both elements of works has been produced by 1 April 2011.</p> <p>Evidence that planning consultations with relevant parties have commenced.</p> <p>Provide evidence that route surveys are underway and that EIA surveys are progressing towards completion.</p>	<p>Pre-construction works are progressing in accordance with detailed programme, (design, single line diagram, site and routing studies, EIA, planning and IPC consents and land purchase/wayleaves) to begin construction works in 2016/17).</p> <p><b>Bramford-Twinstead tee 400kV circuit</b> – provide evidence to show that:</p> <p>Evidence that initial planning consultations with relevant parties have been completed.</p> <p>Planning application being prepared for submission to IPC.</p> <p>Project design is being progressed in line with completion in 2016/17.</p>	
For Funded Construction Works	<p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Civil works are underway at substation site from 31 March 2010.</p>	<p><b>Norwich-Walpole reductoring</b> – provide evidence to show that:</p> <p>Works have started as programmed.</p> <p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Civil works have progressed at substation site and that works have started on substation structures.</p>	<p><b>Norwich-Walpole reductoring</b> – provide evidence to show that:</p> <p>Reconductoring of circuits is completed in 2011/12. Confirm that works have finished as programmed.</p> <p><b>Norwich-Bramfordreductoring</b> – provide evidence to show that:</p> <p>Reconductoring has started by showing that plant has been ordered.</p> <p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Civil and substation</p>	<p><b>Reconductoring of Walpole-Norwich-Bramford 400kV circuit: Norwich-Bramfordreductoring</b> – provide evidence to show that construction work has commenced in line with reductoring being completed by 31 March 2014.</p> <p>This will include:</p> <ul style="list-style-type: none"> <li>• Evidence that pre-access works including temporary roadways and scaffolds are in place</li> <li>• Tower steelwork replacement has commenced</li> <li>• All materials have been delivered</li> </ul> <p><b>Bramford substation</b> –</p>

			structures works have progressed to allow installation of GIS equipment and that remaining plant has been ordered.	<p>provide evidence to show that:</p> <p>Work has been carried out to turn-in relevant transmission circuits at Bramford substation.</p> <p>Construction work is progressing in line with a completion date of 2017.</p>
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### 3. Forecast output measures

Description of output measures for Funded Construction Works	By 31 March 2012	By 31 March 2013	Upon completion (if not completed by 31 March 2013)
Reconductoring of Walpole-Norwich 400kV circuit	The rating of this circuit should be improved to have a pre fault winter rating of 2580MVA and a post fault winter rating of 3070MVA.		
Reconductoring of Norwich-Bramford 400kV circuit	Not complete.	Not complete.	The rating of this circuit should be improved to have a pre fault winter rating of 2580MVA and a post fault winter rating of 3070MVA by 1 April 2014.
New Bramford 400kV substation	Not complete.	Not complete.	A new 400kV substation should be commissioned at Bramford by 1 April 2017.

## Eastern HVDC link

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	0.738	1.582	0.964

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre-construction Works		<p><b>Eastern HVDC submarine link</b> – provide evidence to show that:</p> <p>Preliminary works including network designs, high level programmes and plans, potential routes, installation designs, land/environmental appraisals and single line diagrams have been completed in preparation for planning application.</p>	<p><b>Eastern HVDC submarine link</b> – provide evidence to show that:</p> <p>There has been progression of site/routing studies, detailed design solutions, consultations and impact assessments in preparation for planning application.</p> <p><b>Hawthorn Pit/Lackenby substations</b> – provide evidence to show that:</p>	<p><b>Eastern HVDC submarine link</b> – provide evidence to show that:</p> <p>Further survey work on the proposed route has been undertaken.</p> <p>Further progress in consenting the onshore works has been made.</p> <p><b>Hawthorn</b></p>



			<p>Preliminary works have commenced, including high level programmes and plans, potential routes, installation designs, land/environmental appraisals and single line diagrams in preparation for planning application.</p>	<p><b>Pit/Lackenby substations</b>  – provide evidence to show that:</p> <p>A preferred landing point has been confirmed and that design work has commenced.</p> <p>Environmental and geotechnical surveys have commenced.</p>
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## Humber

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	1.969	3.642	7.032

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre-construction Works		<p><b>For either a Humber-Walpole HVDC link or 400kV OHL – provide evidence to show that:</b></p> <p>An optioneering report has been completed to determine the optimum solution.</p> <p>Preliminary works including network designs, high level programmes and plans, potential routes, installation designs, land/environmental appraisals and single line diagrams have</p>	<p><b>For either a Humber-Walpole HVDC link or 400kV OHL – provide evidence to show that:</b></p> <p>There has been progression of site/detailed route studies, detailed design solutions, consultations and EIAs.</p> <p><b>Substation</b></p>	<p><b>For either a Humber-Walpole HVDC link or 400kV OHL – provide evidence to show that:</b></p> <p>Pre-construction work has progressed in line with programme.</p> <p><b>Substation works at Humber and Walpole – provide evidence to</b></p>

		<p>been completed in preparation for planning application.</p> <p><b>Substation works at Humber and Walpole</b> – provide evidence to show that:</p> <p>Option studies and high level designs have been completed.</p>	<p><b>works at Humber and Walpole</b> – provide evidence to show that:</p> <p>Further design work including single line diagram, system design specification, construction design specification, other design requirements and internal stage 2 sanction have progressed in accordance with programme.</p>	<p>show that:</p> <p>Pre-construction work has progressed in line with programme.</p>
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## London

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	2.954	1.969	0.000

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre-construction Works		<p><b>Hackney-Waltham Cross</b> – provide evidence to show that:</p> <p>An optioneering report has been completed to demonstrate optimum system design for the substation under consideration.</p> <p>Pre-construction works have started, (design, single line diagram, site and routing studies, EIA, planning and consents and land purchase/wayleaves) in line with</p>	<p><b>Hackney-Waltham Cross</b> – provide evidence to show that:</p> <p>Pre-construction works are complete, (design, single line diagram, site and routing studies, EIA, planning consents and land purchase/wayleaves) in line with programme to begin construction works in 2012).</p>	

		programme to begin construction works in 2012).		
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## North Wales

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works
- Funded Construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	6.842	7.088	7.434
Construction cost allowance	0.000	0.000	0.000	2.646

### 2. Key project milestones

<b>Descri ption of project milesto nes</b>	<b>Deliv ered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre- constru ction Works		<p><b>ReconductoringTr awsfynydd to Treuddyn Tee</b> – provide evidence to show that:</p> <p>Confirmation of consent decision; evidence of contract tendering, award and plant ordering are progressing in line with construction commencement in 2011.</p> <p>That consent</p>	<p><b>For all elements of the project</b> – provide evidence to show that:</p> <p>Planning permission submissions, together with land purchase/easements /wayleaves and environmental impact assessments have been completed in line with individual projects' respective programmes.</p>	<p><b>For all elements of the project</b> – provide evidence to show that:</p> <p>Pre-construction work has progressed in line with individual projects' respective programmes.</p>

	<p>exemption consultation(s) have been completed.</p> <p><b>Series compensation</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and siting study. Also provide evidence of single line diagrams and physical layout designs.</p> <p><b>Pentir, Penisarwaun, Bryncir and Trawsfynydd substations</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and siting study.</p> <p><b>Manweb 132 replacement</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options. Stakeholder consultations have commenced.</p> <p><b>New Wylfa-Pentir 400kV circuit</b> – provide evidence to show:</p>		
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		<p>Completion of initial feasibility and study options, stakeholder consultations and routing study.</p> <p><b>New Wylfa 400kV substation</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and siting study.</p> <p><b>Second Pentir-Trawsfynydd 400kV circuit</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations, siting study and cable route study for cable sections crossing Glaslyn estuary.</p>		
For Funded Construction Works				<p><b>Reconductoring Trawsfynydd to Treuddyn Tee</b> – provide evidence to show that:</p> <p>Site mobilisation, procurement of key materials and commencement of steelwork replacement.</p>

### 3. Forecast output measures



Description of output measures for Funded Construction Works	By 31 March 2012	By 31 March 2013	Upon completion (if not completed by 31 March 2013)
Trawfynydd to Treuddyn Tee Reconductoring		Not complete.	The rating of this circuit should be improved to have a pre-fault winter rating of 2800MVA by 31 March 2015.

## **South West**

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works.

### **1. Capital expenditure allowances**

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	2.658	2.067	3.014

## 2. Key project milestones

Description of project milestones	Delivered by 1 April 2010	Delivered by 1 April 2011	Delivered by 1 April 2012	Delivered by 1 April 2013
For Funded Pre-construction Works		<p><b>South West new line</b> – provide evidence to show that:</p> <p>Planning consultations with relevant parties have commenced.</p> <p>Route surveys are underway and that EIA surveys are progressing towards completion.</p>	<p><b>South West new line</b> – provide evidence to show that:</p> <p>Planning works have progressed from 1 April 2011 and that project detailed design works have commenced as programmed.</p>	<p><b>South West new line</b> – provide evidence to show that:</p> <p>Pre-construction work has progressed in line with programme.</p> <p><b>South West new substation</b> – provide evidence to show that:</p> <p>Pre-construction work has progressed in line with programme.</p>

## Western HVDC link

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works
- Funded Construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	5.672	4.332	0.000
Construction cost allowance	0.000	4.907	12.867	65.726

### 2. Key project milestones

<b>Descripti on of project milestone s</b>	<b>Deliver ed by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre- constructi on Works		<p><b>Deeside 400kV substation replacemen t</b> – provide evidence to show that:</p> <p>Consents application process is underway.</p> <p>Detailed design process is underway; a detailed</p>	<p><b>HVDC link</b> – provide evidence to show that:</p> <p>Pre-contract release design is completed.</p> <p>Contracts are drawn up over the year with suppliers by 1 April 2012.</p> <p>Land access/acquisition /options and/or agreements for converter station have been</p>	

		<p>construction plan has been drawn up and relevant environmental surveys have been commissioned.</p> <p><b>HVDC link</b> – provide evidence to show that:</p> <p>Completion of network analysis studies and resulting decision on converter, cable route and landing points.</p> <p>Physical layout drawings and final decision of substation locations have been completed.</p> <p>Equipment standards and specifications for design choice have been completed.</p> <p>Sea-bed survey complete.</p>	<p>completed.</p> <p>Pre-application consultation and environmental assessment works complete.</p> <p>Planning application submission to appropriate bodies complete.</p>	
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		<p>Consultations and EIAs are progressing in accordance with programme.</p> <p>Optimised tender design for firm price has been completed.</p>		
For Funded Construction Works		<p><b>Deeside 400kV substation replacement</b> – provide evidence to show that:</p> <p>Plant/material ordering has occurred in line with the planned construction start date in 2011/12.</p>	<p><b>Deeside 400kV substation replacement</b>– provide evidence to show that:</p> <p>Project has progressed in accordance with the detailed programme.</p>	<p><b>Deeside 400kV substation replacement</b>– provide evidence to show that:</p> <p>Construction work has progressed in line with the detailed programme.</p> <p>This will include:</p> <ul style="list-style-type: none"> <li>• Construction has commenced on the GIS building</li> <li>• Installation of the GIS switchboard has commenced</li> <li>• Civils work to allow the installation of transformers</li> <li>• Construction of associated overhead line towers has commenced.</li> </ul>

### 3. Forecast output measures

<b>Description of output measures for Funded Construction Works</b>	<b>By 31 March 2012</b>	<b>By 31 March 2013</b>	<b>Upon completion (if not completed by 31 March 2013)</b>
Deeside 400kV substation replacement	Not complete.	Not complete.	A new 400kV substation at Connah's Quay: <ul style="list-style-type: none"><li>• ready to connect the Western HVDC by 31 December 2015</li><li>• fully replacing the existing 400kV substation at Deeside by 31 March 2018.</li></ul>

## Wylfa-Pembroke HVDC link

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Pre-construction Works.

### 1. Capital expenditure allowances

<b>project costs (£ million) 2009/10 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Pre-construction cost allowance	0.000	0.000	0.476	0.476

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>	<b>Delivered by 1 April 2013</b>
For Funded Pre-construction Works			<b>Wylfa-Pembroke HVDC link</b> – provide evidence to show that:  Preliminary pre-construction works including single line diagrams, high level programmes, on-shore layout diagrams and potential off-shore routes are available. Project risk register, installation	<b>Wylfa-Pembroke HVDC link</b> – provide evidence to show that:  Pre-construction work has progressed in line with programme.



			considerations, consultation strategy and environmental impact assessment strategy have been developed.	
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## **Special Condition 6C. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner**

### **Introduction**

6C.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the licensee's actual TO Totex expenditure, in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6C.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 MOD as calculated for Relevant Year t for the purposes of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue; and
- (b) appropriate adjustments will be made to the licensee's Regulatory Asset Value (RAV) balance,

that reflect the licensee's performance under the Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

6C.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: TO Totex Incentive Mechanism applicable to the licensee**

6C.4 The TO Totex Incentive Mechanism ensures that the licensee bears an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Relevant Year, between:

- (a) the licensee's allowed TO Totex expenditure; and
- (b) the licensee's actual TO Totex expenditure.

- 6C.5 The 'appropriate share' referred to in paragraph 6C.4 is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).
- 6C.6 TO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the ET1 Price Control Financial Model. The 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 TO Totex Incentive Mechanism adjustments.
- 6C.7 This condition provides for the determination and direction of revisions to the five PCFM Variable Values that relate to the licensee's actual TO Totex expenditure. PCFM Variable Values which relate to the licensee's allowed TO Totex expenditure are specified in other special conditions of the licence, and are scheduled in the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

**Part B: Process for determining PCFM Variable Values for the TO Totex Incentive Mechanism**

- 6C.8 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) actual load related capex expenditure (ALC values);
  - (b) actual asset replacement capex expenditure (ARC values);
  - (c) actual other capex expenditure (AOC values);
  - (d) actual controllable opex (ACO values); and
  - (e) actual non-operational capex (ANC values).
- 6C.9 Subject to paragraph 6C.10, the Authority will, by 30 November in each Relevant Year t-1
- (a) determine revised ALC, ARC, AOC, ACO and ANC values for Relevant Year t-2; and

- (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Relevant Years to which they relate,

in each case in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook.

6C.10 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6C.9 is Relevant Year 2014/15.

6C.11 The Authority may also direct revisions to ALC, ARC, AOC, ACO and ANC values for Relevant Years earlier than Relevant Year t-2, where that is necessary to take into account any restatement of, or correction to, Specified Information submitted by the licensee, under any provision of the licence. Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.

6C.12 Where the Authority directs any revised ALC, ARC, AOC, ACO or ANC values for Relevant Years earlier than Relevant Year t-2, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term MOD will be retrospectively affected.

**Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to the licensee's actual TO Totex expenditure by the Authority**

6C.13 Subject to paragraph 6C.10 of this condition, revised ALC, ARC, AOC, ACO and ANC values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

6C.14 Before issuing any directions under paragraph 6C.13 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

6C.15 The notice referred to in paragraph 6C.14 of this condition will:

- (a) state that any revised ALC, ARC, AOC, ACO or ANC values have been determined in accordance with Part B of this condition; and
- (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised ALC, ARC, AOC, ACO or ANC values.

6C.16 The Authority will have due regard to any representations duly received under paragraph 6C.15 of this condition, and give reasons for its decisions in relation to them.

6C.17 If, subject to paragraph 6C.10 of this condition, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised ALC, ARC, AOC, ACO and ANC values by 30 November, the Authority 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 MODt under that paragraph.

**Part D: Interpretation**

6C.18 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretations) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

**APPENDIX 1: TOTEX INCENTIVE STRENGTH AND TOTEX CAPITALISATION RATES**

(see Part A of this condition)

<b>Licensee</b>	<b>Totex Incentive Strength Rate</b>	<b>Totex Capitalisation Rate</b>
National Grid Electricity Transmission plc	46.89%	85%

## **Special Condition 6D. Specified financial adjustments – Transmission Owner**

### **Introduction**

6D.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).

6D.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 MOD as calculated for Relevant Year t for the purposes of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an appropriate adjustment to the licensee's Base Transmission Revenue in a manner that appropriately reflects the licensee's:

- (a) revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy;
- (b) revenue allowances for tax liabilities; and
- (c) allowed TO percentage cost of corporate debt,

determined under the methodologies set out in chapters 3, 4 and 5 of the ET1 Price Control Financial Handbook respectively.

6D.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: TO Revenue allowances for Pension Scheme Established Deficits, Pension Scheme administration and the Pension Protection Fund levy**

6D.4 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) Pension Scheme Established Deficit TO revenue allowances (EDE values); and
- (b) Pension Scheme Administration and Pension Protection Fund levy TO revenue allowances (APFE values).

6D.5 Subject to paragraph 6D.6 of this condition, the Authority will, by 30 November in each Relevant Year t-1, determine whether any EDE values should be revised as a result of:

- (a) a valuation of 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.

6D.6 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6D.5 of this condition is Relevant Year 2014/15.

6D.7 Subject to paragraph 6D.8 of this condition, the Authority will, by 30 November in each Relevant Year t-1, determine whether any APFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) Pension Scheme Administration costs; and/or
- (b) Pension Protection Fund levy costs

in each case, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

6D.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6D.7 of this condition is Relevant Year 2014/15.

6D.9 If the Authority determines under paragraph 6D.5 or 6D.7 of this condition that, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook, any EDE values or APFE values are to be revised, it 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 EDE values and APFE values that have been determined and the Relevant Years to which they relate.

6D.10 Where the Authority directs any revised EDE values or APFE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term MOD will be retrospectively affected.

**Part B: TO tax liability allowances**

6D.11 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) TO tax liability revenue allowance adjustments in respect of tax trigger event (TTE values); and
- (b) TO tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (TGIE values).

6D.12 The TTE values and TGIE values for each Relevant Year are zero as at 1 April 2013.

6D.13 Subject to paragraph 6D.14 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

6D.14 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 6D.13 of this condition is Relevant Year 2013/14.



6D.15 Subject to paragraph 6D.16 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any TGIE values should be revised as a result of a review of:

- (a) the licensee's actual level of gearing; and
  - (b) the level of debt interest charges actually incurred by the licensee,
- in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

6D.16 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6D.15 of this condition is Relevant Year 2014/15.

6D.17 If the Authority determines under paragraph 6D.13 or 6D.15 of this condition that, in accordance with the methodologies contained in chapter 4 of the ET1 Price Control Financial Handbook, any TTE values or TGIE values are to be revised, it 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 TTE values and TGIE values that have been determined and the Relevant Years to which they relate.

6D.18 Where the Authority directs any revised TTE values or TGIE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt will not have any retrospective effect on a previously directed value of the term MOD.

**Part C: Allowed TO percentage cost of corporate debt**

6D.19 This Part C provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed TO percentage cost of corporate debt (CDE values).

6D.20 Subject to paragraph 6D.22 of this condition, the Authority will by 30 November in each Relevant Year t-1:

- (a) determine a revised CDE value for Relevant Year t and each subsequent Relevant Year in accordance with the methodology

contained in chapter 5 of the ET1 Price Control Financial Handbook;  
and

- (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised CDE values that have been determined and the Relevant Years to which they relate.

6D.21 The Authority may also revise the CDE value for a Relevant Year earlier than Relevant Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.

6D.22 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6D.20 of this condition is Relevant Year 2013/14.

6D.23 Where the Authority directs any revised CDE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt will not have any retrospective effect on a previously directed value of the term MOD.

**Part D: Procedure to be followed for direction of revised PCFM Variable Values relating to specified TO financial adjustments by the Authority**

6D.24 Subject to, and in accordance with, the provisions of Parts A, B and C of this condition, revised EDE, APFE, TTE, TGIE and CDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

6D.25 Before issuing any directions under paragraph 6D.24 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

6D.26 The notice referred to in paragraph 6D.25 of this condition will:

- (a) state that any revised EDE and APFE values have been determined in accordance with Part A of this condition;

- (b) state that any revised TTE and TGIE values have been determined in accordance with Part B of this condition;
- (c) state that any revised CDE values have been determined in accordance with Part C of this condition; and
- (d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised EDE, APFE, TTE, TGIE or CDE values.

6D.27 The Authority will have due regard to any representations duly received under paragraph 6D.26 of this condition, and give reasons for its decisions in relation to them.

6D.28 If, for any reason in any Relevant Year  $t-1$ , the Authority does not make a direction in relation to revised EDE, APFE, TTE, TGIE and CDE values by 30 November, the Authority 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  $MOD_t$  under that paragraph.

#### **Part E: Interpretation**

6D.29 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretations) 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 6E. The Innovation Roll-out Mechanism**

### **Introduction**

- 6E.1 The purpose of this condition is to determine any appropriate revisions to PCFM Variable Values relating to Innovation Roll-out Allowed Expenditure ('IRM' values) and the Relevant Years to which those revisions 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).
- 6E.2 The IRM value is set at £0m as at 1 April 2013.
- 6E.3 The IRM value relating to a particular Relevant Year represents the total amount of the licensee's Innovation Roll-out Allowed Expenditure (in 2009/10 prices) for that Relevant Year.
- 6E.4 The application of the mechanisms in this condition provides for:
- (a) the licensee to propose adjustments to its IRM values during either of the two windows specified in Part C of this condition;
  - (b) determinations by the Authority in relation to proposals by the licensee under sub-paragraph (a); and
  - (c) the direction, where applicable of revised IRM values.
- 6E.5 The determination and direction of revised IRM values, where applicable will, as a consequence of the Annual Iteration Process for the ET1 Price Control Financial Model, ensure that the value of the term MOD as derived for Relevant Year  $t$  for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
- (a) takes account of revisions to IRM values for particular Relevant Years; and
  - (b) takes account of approved changes for the purposes of the Totex Incentive Mechanism adjustment as set out in Special Condition 6C

(Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner).

**Part A: Features that qualify an Innovation Roll-out for additional funding**

6E.6 The Roll-out by the licensee of a Proven Innovation will allow the licensee to receive additional funding within the Price Control Period but only if the Authority is satisfied that the Roll-out:

- (a) will deliver Carbon Benefits or any wider environmental benefits;
- (b) will provide long-term value for money for electricity consumers;
- (c) will not enable the licensee to receive commercial benefits from the Roll-out within the remainder of the Price Control Period (for instance, where the Roll-out of a Proven Innovation will lead to cost savings (including benefits from other incentives) equal to or greater than its implementation costs within the Price Control Period); and
- (d) will not be used to fund any of the Ordinary Business Arrangements of the licensee.

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

6E.7 The licensee may by notice to the Authority, and in accordance with Parts C and D of this condition below, propose a relevant adjustment within the meaning of paragraph 6E.9 of this condition to recover Innovation Roll-out Costs where these costs would constitute a material amount within the meaning of paragraph 6E.8 of this condition.

6E.8 A material amount is the amount of the Innovation Roll-out Costs, when multiplied by the licensee's Totex Incentive Strength Rate as set out in Appendix 1 of this condition, that exceeds or is likely to exceed 1 per cent of the licensee's materiality threshold amount, as set out in Appendix 2 of this condition.

6E.9 A relevant adjustment is an adjustment:

- (a) which the licensee believes will enable it to recover Innovation Roll-out Costs associated with a single Proven Innovation that would not otherwise be recoverable under the Special Conditions; and

- b) which applies only in respect of Innovation Roll-out Costs that have not yet been incurred.

**Part C: Application windows for relevant adjustment proposals**

6E.10 There are two application windows during which a relevant adjustment may be proposed by notice served under Part B of this condition:

- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.

6E.11 A relevant adjustment may be proposed during either of the application windows provided that in each case the proposal complies with the provisions of paragraphs 6E.8 and 6E.9 of this condition.

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

6E.12 A notice served by the licensee under Part B above must in all cases:

- (a) state any statutory obligations or any requirements of this licence to which the notice relates;
- (b) describe the Proven Innovation that the licensee proposes to Roll-out;
- (c) propose the amount of the relevant adjustment and set out, by reference to the Innovation Roll-out Costs, the basis on which the licensee has calculated the relevant adjustment;
- (d) demonstrate that the costs to be recovered by the relevant adjustment will be a material amount for the purposes of paragraph 6E.8 of this condition;
- (e) demonstrate how each of the criteria set out in Part A of this condition above will be fulfilled by the additional funding sought;
- (f) propose relevant outputs or other end products against which the Roll-out will be assessed; and

- (g) state the date from which it is proposed that the relevant adjustment will have effect (“the adjustment date”).

6E.13 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; and
- (b) 1 April 2019 in the case of a relevant adjustment proposed during the second and final application window.

**Part E: Authority’s determination of a relevant adjustment**

6E.14 Where the licensee serves a notice under Part B of this condition, the Authority may, within four months of the close of the application window during which the notice was submitted to the Authority, determine whether the proposed relevant adjustment should result in a revision to the IRM values subject to paragraphs 6E.15 of this condition.

6E.15 In determining any relevant adjustment under this Part E of this condition, the Authority will:

- (a) consult the licensee;
- (b) have particular regard to the purposes of this condition, and, the notice made under Part B of this condition; and
- (c) take no account of the financial performance of the licensee relative to any of the assumptions, whether expressed or implied, by reference to which the Special Conditions may have been framed.

**Part F: Determination by the Authority of revisions to IRM values**

6E.16 This part sets out the basis for determining revisions to the IRM value for use in the Annual Iteration Process for the ET1 Price Control Financial Model.

6E.17 The Authority will, by 30 November in each Relevant Year t-1, determine whether the Allowed Expenditure for any Relevant Year is different to the IRM value in the PCFM for the corresponding Relevant Year and, in any case where it is different, the Authority will:

- (a) determine that the IRM value for the applicable Relevant Year is to be revised to reflect any changes as a result of determinations made by the Authority under Part E of this condition; and
- (b) issue a direction, in accordance with the provisions of Part G of this condition, specifying any revised IRM values determined under subparagraph (a) of this paragraph and the Relevant Years to which they relate.

**Part G: Procedure for direction of revised IRM values by the Authority**

6E.18 Any revised IRM values determined by the Authority in accordance with Part F of this condition will be directed by the Authority by 30 November in each Relevant Year  $t-1$ .

6E.19 Before issuing any directions under paragraph 6E.18 of this condition, the Authority will give notice to the licensee of all of the values that it proposes to direct.

6E.20 The notice referred to in paragraph 6E.19 of this condition will:

- (a) state that any revised IRM values have been determined in accordance with Part F of this condition; and
- (b) specify the period (which will 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 IRM values.

6E.21 The Authority will have due regard to any representations duly received in response to this notice under paragraph 6E.20 of this condition, and give reasons for its decisions in relation to them.

6E.22 Where the Authority directs any revised IRM values relating to Relevant Years which are earlier than Relevant Year  $t$ , the effect of using those revised IRM values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year  $t$  and, for the avoidance of doubt, it will not have any retrospective effect on a previously directed value of the term MOD.



6E.23 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised IRM values by 30 November, then no revised IRM values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised IRM values in respect of the next Annual Iteration Process.

**APPENDIX 1: Totex Incentive Strength Rate**

<b>Licensee</b>	<b>Totex Incentive Strength Rate (%)</b>
National Grid Electricity Transmission plc	46.89%

**APPENDIX 2: Materiality threshold amount**

<b>Licensee</b>	<b>£m (2009/10 values)</b>
National Grid Electricity Transmission plc	1634.580

## **Special Condition 6F. Baseline Generation Connections Outputs and Generation Connections volume driver**

### **Introduction**

6F.1 The purposes of this condition are:

- (a) to specify the basis on which the licensee's levels of Allowed Expenditure for transmission infrastructure works to connect new generating stations to the licensee's Transmission System ("Generation Connections") are to be derived; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the Generation Connections Allowed Expenditure ('GCE' values) and the Relevant Years to which those revised GCE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6F.2 The GCE values calculated for a particular Relevant Year is the amount of Allowed Expenditure (in 2009/10 prices) necessary for the licensee to deliver Generation Connections as determined in accordance with the provisions of this condition. The GCE values as at 1 April 2013 are equal to the forecast amounts of Allowed Expenditure specified at the outset of the Price Control Period.

6F.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of the baseline Generation Connections and the associated Allowed Expenditure;
- (b) the determination in Relevant Year t-1 of one or more revisions to GCE values to reflect the Generation Connections the licensee delivers in Relevant Year t-2;
- (c) the determination of the licensee's Allowed Expenditure for Generation Connections the licensee forecast it will deliver in the first two years of the next price control period starting on 1 April 2021; and

- (d) the direction of revised GCE values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
- (i) reflects Allowed Expenditure amounts determined under Part C of this condition; and
  - (ii) takes account of Allowed Expenditure on Generation Connections for the purposes of the Totex Incentive Mechanism Adjustment.

6F.4 This condition should be read and construed in conjunction with Special Condition 5B, and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

#### **Part A: Baseline Generation Connections and Allowed Expenditure**

6F.5 Table 1 in this condition sets out the baseline forecast of Generation Connections (BGCO) and overhead line (BLOHL) for each Relevant Year in the Price Control Period and the baseline expenditure (BGCE), in 2009/10 prices, associated with those baseline outputs as at 1 April 2013.

**Table 1: Baseline Generation Connections and Allowed Expenditure**

	Relevant Year							
	2013/1 4	2014/1 5	2015/1 6	2016/1 7	2017/1 8	2018/1 9	2019/2 0	2020/2 1
<b>BGCO (MW)</b>	504.0	1597.0	3264.0	3553.0	1540.0	3797.0	5649.5	13819.0
<b>BLOHL (circuit km)</b>	5.4	0.0	0.0	100.0	0.0	70.0	40.0	0.0
<b>BGCE</b>	130.52	185.22	184.11	220.71	117.36	95.965	42.494	20.662

(£m)	4	8	2	0	4			
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6F.6 The baseline expenditure set out in Table 1 in this condition has been reflected in:

- (a) the licensee's Opening Base Revenue Allowance, set against the licensee's name in Appendix 1 to Special Condition 3A; and
- (b) GCE values contained in the PCFM Variable Values Table for the Licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

6F.7 The licensee must report on the Generation Connections it has delivered after 31 March 2013, and on the actual expenditure the licensee has incurred in accordance with the RIGs issued in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

**Part B: Allowed Expenditure for Generation Connections**

6F.8 The value of GCE is to be determined for each Relevant Year n (where n=2014 to 2021 for Relevant Year ending 31 March) in accordance with the following formula:

- (a) For Relevant Years, t =2013/14 and 2014/15:

$$GCE_{t,n} = BGCE_n$$

- (b) For Relevant Year t = 2015/16:

$$GCE_{t,n} = BGCE_n + VGCE_{t,n} + (TPG_n - TPRG_n)$$

- (c) For Relevant Year t = 2016/17 and all subsequent Relevant Years:

$$GCE_{t,n} = GCE_{t-1,n} + VGCE_{t,n} + (TPG_n - TPRG_n) + FGCE_{t,n}$$

**Drafting Change:** paragraph 6F.8(d) has been added to cover the post-separation period.

where:

n	means the Relevant Year for which the Allowed Expenditure is calculated.
BGCE <sub>n</sub>	means the Baseline Generation Connections Expenditure in Relevant Year n as set out in Table 1.
VGCE <sub>t,n</sub>	means the Allowed Expenditure for Delivered Generation Connections calculated in Relevant Year t for each year n, determined in accordance with paragraph 6F.9 of this condition.
TPG <sub>n</sub>	means the total expenditure efficiently incurred by the licensee in (2009/10 prices) in respect of Generation Connections where the users reduce TEC or developer capacity (as defined in CUSC) or terminate the relevant bilateral agreements in year n prior to commencing use of the Generation Connection.
TPRG <sub>n</sub>	means an amount equal to the actual income from termination receipts received, in the form of revenues or capital contributions, in respect of TPG <sub>n</sub> in year n.
FGCE <sub>t,n</sub>	means Allowed Expenditure for the licensee's forecast of Generation Connections to be Delivered at the start of the next Price Control Period, calculated in Relevant Year t for each year n in accordance with paragraph 6F.10 of this condition.

6F.9 The value of VGCE<sub>t,n</sub> is to be determined for Relevant Year t = 2015/16 and each subsequent Relevant Year in accordance with the following formula for each Relevant Year n (where n=2014 to 2021 for Relevant Year ending 31 March) where information is available for Relevant Year t-2:

$$VGCE_{t,n} = \{(AGCO_{t-2} - BGCO_{t-2}) \times \text{£}0.027\text{million} + (ALOHL_{t-2} - BLOHL_{t-2}) \times \text{£}1.1\text{million} + (\sum_{\text{for all } x} \sum_{m=1 \text{ to } 15} ASLCBL_{x,m,t-2} \times COUCA_m)\} \times RPE_n \times WFG_{t-2,n}$$

where:

n	has the same meaning as in paragraph 6F.8 of this condition.
AGCO <sub>t-2</sub>	means the actual Relevant Generation Capacity as at 31 March of Relevant Year t-2.
BGCO <sub>t-2</sub>	means the baseline Relevant Generation Capacity for Relevant Year t-2 as set out in Table 1 of this condition.
ALOHL <sub>t-2</sub>	means the actual length of overhead line in circuit kilometres commissioned as part of the Generation Connections Delivered in Relevant Year t-2.
BLOHL <sub>t-2</sub>	means the baseline length of overhead line in circuit kilometres in Relevant Year t-2 as set out in Table 1 of this condition.
m	indexes each underground cable type which is specified both by its construction and by its section length as set out in Table 2 in this condition (i.e. m = 1 to 15).
x	means the number of sections of underground cable Delivered (i.e. x = 0 to N).
ASLCBL <sub>x,m,t-2</sub>	means the actual underground cabling section x of type m in circuit kilometres commissioned as part of the Generation Connections Delivered in Relevant Year t-2.
COUCA <sub>m</sub>	means the cost per section length for each underground cable type m as set out in Table 2 of this condition.

RPE<sub>n</sub>

means the Real Price Effects adjustment factor for year n as set out in Table 3 of this condition.

WFG<sub>t-2,n</sub>

means the weighting factor for expenditure in year n for outputs Delivered in Relevant Year t-2 as set out in Table 4 of this condition.

**Table 2: Unit cost allowances for Underground Cabling**

m	Underground cable type	x, section length in route km	COUCA <sub>m</sub> £m per circuit kilometre (2009/10 prices)
1	1 core per phase ≤ 2500mm <sup>2</sup>	x < 3	6.3
2		3 ≤ x < 15	5.2
3		x ≥ 15	5.0
4	1 core per phase >2500mm <sup>2</sup>	x < 3	6.6
5		3 ≤ x < 15	5.5
6		x ≥ 15	5.3
7	2 core per phase ≤ 2500mm <sup>2</sup>	x < 3	10.5
8		3 ≤ x < 15	8.9
9		x ≥ 15	8.7
10	2 core per phase > 2500mm <sup>2</sup>	x < 3	11.1
11		3 ≤ x < 15	9.5
12		x ≥ 15	9.3
13	3 cores per phase ≤ 2500mm <sup>2</sup>	x < 3	14.7
14		3 ≤ x < 15	12.6
15		x ≥ 15	12.4

**Table 3: Real price effect adjustment factors**

Year n							
2013/1 4	2014/1 5	2015/1 6	2016/1 7	2017/1 8	2018/1 9	2019/2 0	2020/2 1
1.032	1.040	1.049	1.057	1.065	1.074	1.082	1.091

**Table 4: Weighting factors for Generation Connections**

Relevant year t-2	Expenditure year n							
	2013/1 4	2014/1 5	2015/1 6	2016/1 7	2017/1 8	2018/1 9	2019/2 0	2020/2 1
2014	1.00							
2015	0.47	0.53						
2016	0.47	0.32	0.21					
2017	0.16	0.315	0.315	0.21				
2018		0.16	0.315	0.315	0.21			
2019			0.16	0.315	0.315	0.21		
2020				0.16	0.315	0.315	0.21	
2021					0.16	0.315	0.315	0.21
2022						0.16	0.315	0.315
2023							0.16	0.315

6F.10 The value of  $FGCE_{t,n}$  is to be calculated for each Relevant Year n (where n = 2019 to 2021 for Relevant Year ending 31 March) from the following such formula as is applicable:

- (a) For Relevant Years t = 2016/17 to 2017/18:



$$FGCE_{t,n} = 0$$

- (b) For Relevant Year  $t = 2018/19$  where forecasts for each year  $d$  are available (where  $d = 2022$  to  $2023$  for year ending 31 March):

$$FGCE_{t,n} = \sum_{d=2022 \text{ to } 2023} \{ (FGCO_d \times \text{£}0.027 \text{ million} + FOHL_d \times \text{£}1.1 \text{ million} + \sum_{\text{for all } x} (\sum_{m=1 \text{ to } 15} FCBL_{x,m,d} \times COUCA_m) \} \times RPE_n \times WFG_{d,n}$$

- (c) In Relevant Years  $t = 2019/20$  to  $2020/21$ :

$$FGCE_{t,n} = 0$$

where:

- $n$  has the same meaning as in paragraph 6F.8 of this condition.
- $d$  means the Relevant Year in which the licensee forecasts it will Deliver the Generation Connections.
- $m$  has the same meaning as in paragraph 6F.9 of this condition.
- $x$  has the same meaning as in paragraph 6F.9 of this condition.
- $FGCO_d$  means the licensee's forecast of new Generation Connections that are backed with a signed Bilateral Connection Agreement to deliver the connection capacity in year  $d$ .
- $FOHL_d$  means the forecast length of overhead line in circuit kilometres the licensee forecasts to be required as part of delivering  $FGCO_d$  in year  $d$ .
- $FCBL_{x,m,d}$  means the underground cabling section  $x$  of type  $m$  in circuit kilometres the licensee forecasts to be required as part of delivering  $FGCO_d$  in year  $d$ .

COUCA <sub>m</sub>	has the same meaning as paragraph 6F.9 of this condition.
RPE <sub>n</sub>	has the same meaning as paragraph 6F.9 of this condition.
WFG <sub>d,n</sub>	has the same meaning as paragraph 6F.9 of this condition, except d replaces t-2.

**Part C: Determination of revisions to GCE values**

6F.11 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part D of this condition, specifying the revised GCE values for all years of the Price Control Period.

6F.12 The GCE values directed by the Authority will be deemed to be set out in the format of Table 6 in this condition showing the total amounts of Allowed Expenditure for Generation Connections for each Relevant Year n of the Price Control Period after any modifications calculated in accordance with the formulae set out in Part B of this condition.

**Table 6: Allowed Expenditure (£m, 2009/10 prices) after modifications in Part B (reading down columns)**

Relevant Year n	Relevant Year t							
	2015/1 6	2016/1 7	2017/1 8	2018/1 9	2019/2 0	2020/2 1	2021/2 2	2022/2 3
<b>2014</b>								
<b>2015</b>								
<b>2016</b>								
<b>2017</b>								
<b>2018</b>								
<b>2019</b>								
<b>2020</b>								
<b>2021</b>								
<b>Total</b>								

6F.13 The Authority may also revise a GCE value for a Relevant Year in paragraph 6F.12 of this condition notwithstanding that the GCE value concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the terms VGCE, TPG, TPRG and/or FGCE in respect of the earlier Relevant Years or to correct errors in relation to those values;
- (b) the revised GCE value for the earlier Relevant Years is calculated in accordance with the formula set out in Part B of this condition; and
- (c) the revised GCE value for the earlier Relevant Years is specified in a direction issued in accordance with the provisions of Part D of this condition.

**Part D: Procedure to be followed for the direction of revised GCE values**

6F.14 A direction issued by the Authority under paragraph 6F.11 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 6F.11 of this condition:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) stating, where appropriate, that any GCE values have been determined in accordance with Part B of this condition;
  - (iii) specifying the time (which must not be less than a period of 14 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.

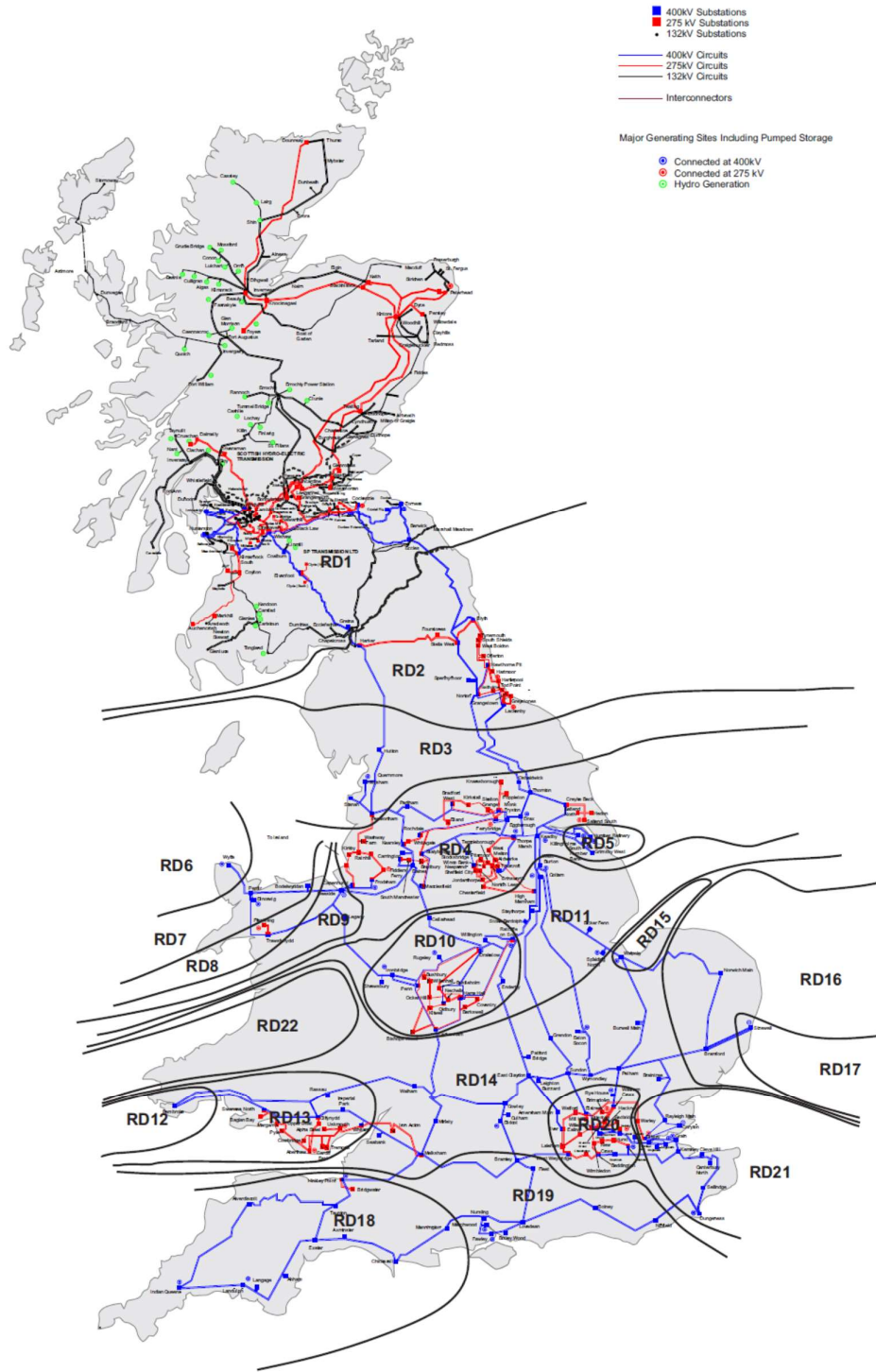
6F.15 Where the Authority directs any revised GCE values for earlier Relevant Years under paragraph 6F.11 of this condition, the effect of using those revised GCE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6F.16 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised GCE values by 30 November, then no revised GCE values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised GCE values in respect of the next Annual Iteration Process.

# APPENDIX 1: Map of defined Zones 2 and 22

Key:

Figure A1.2: GB Existing Transmission System



## Special Condition 6G. Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas

**Drafting Change:** the amendments made to Part B Table 1 and Part D Table 2 reflect the modifications made by the Authority direction of 13/02/18.

### Introduction

6G.1 The purpose of this condition is:

- (a) is to set out provisions to enable the licensee to request that the Authority specify Enhancing Pre-existing Infrastructure (EPI) Outputs for the licensee to mitigate the impact of Pre-Existing Transmission Infrastructure on the visual amenity in Designated Areas and for the Authority to determine the Allowed Expenditure associated with those EPI Outputs; and
- (b) to determine any revisions to the PCFM Variable Values relating to EPI Allowed Expenditure ('EPIE' values) and the Relevant Years to which those revised EPIE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6G.2 The EPIE values relating to a particular Relevant Year is the amount of Allowed Expenditure for that Relevant Year (in 2009/10 prices) for the delivery of EPI Outputs as specified and determined in accordance with this condition.

6G.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of EPI Outputs and any Allowed Expenditure associated with those Outputs;
- (b) the determination and direction by the Authority of revised EPIE values to reflect changes to the Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the MOD term as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue)

will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:

- (i) reflects approved changes to Allowed Expenditure for EPI Outputs specified in this condition; and
- (ii) takes account of approved changes to Allowed Expenditure for EPI Outputs specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

6G.4 This condition should be read and construed in conjunction with, Special Condition 5B, and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

#### **Part A: Mitigating Pre-existing Infrastructure Policy**

6G.5 Before making a request to the Authority to specify EPI Outputs under the provisions of Part C of this condition the licensee must submit to the Authority a Mitigating Pre-existing Infrastructure Policy ("Policy").

6G.6 The Policy required by paragraph 6G.5 of this condition must include:

- (a) the licensee's objectives for delivering EPI Outputs, with reference to how these have been informed by the licensee's statutory duties and stakeholders' views on the licensee's role in delivering EPI Outputs;
- (b) details of how the licensee will work with other Transmission Licensees, relevant national and statutory bodies, and other interested stakeholders to maximise the benefits to consumers of EPI Outputs taken forward during the Price Control Period;
- (c) a proposed methodology to identify opportunities for benefit-maximizing EPI Outputs on the National Electricity Transmission System;

- (d) proposed criteria to evaluate and prioritise EPI Outputs including, but not limited to, visual amenity benefits, value for money, and other environmental impacts;
- (e) a description of the potential measures by which the licensee could deliver EPI Outputs to mitigate the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas; and
- (f) an explanation of how the licensee will review and revise the Policy so that it remains at all times consistent with industry best practice.

6G.7 Unless the Authority otherwise directs within two months of the date of submission of the Policy by the licensee in accordance with paragraph 6G.6 of this condition, the licensee must use reasonable endeavours to apply the methodology set out in that Policy.

6G.8 Before revising the methodology set out in the Policy, the licensee must submit a copy of the proposed revisions to the Authority.

6G.9 Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 6G.8 of this condition the revisions will take effect and the licensee must use reasonable endeavours to apply the methodology set out in the Policy as revised.

#### **Part B: Assessment of Allowed Expenditure for EPI Outputs**

6G.10 During the Price Control Period the licensee may submit a request to the Authority to determine on the Allowed Expenditure for the licensee to develop and deliver a EPI Output.

6G.11 All EPI Outputs will be deemed to be specified in Table 1 of this condition following a determination by the Authority on the Allowed Expenditure for those outputs in accordance with the provisions of Part B of this condition.



**Table 1: EPI Outputs**

EPI Output description			Designated Area	Delivery date																								
<p><b>Beautiful Boundaries project</b> Project addresses the visual and landscape impacts of five sections of existing lines on publicly accessible viewpoints and enhances landscape through restoration and creation of characteristic boundary features.</p> <table border="1"> <thead> <tr> <th>EPI Output</th> <th>Mitigation activity</th> <th>Volume</th> </tr> </thead> <tbody> <tr> <td rowspan="4">Landscape enhancement and reduced visual impact</td> <td>Coppice gap up and fence</td> <td>5.3km</td> </tr> <tr> <td>New hedge and fence</td> <td>3.6km</td> </tr> <tr> <td>Plant trees</td> <td>232</td> </tr> <tr> <td>Fence ancient woodland</td> <td>5.4km</td> </tr> </tbody> </table>			EPI Output	Mitigation activity	Volume	Landscape enhancement and reduced visual impact	Coppice gap up and fence	5.3km	New hedge and fence	3.6km	Plant trees	232	Fence ancient woodland	5.4km	<p><b>High Weald Area of Outstanding Natural Beauty</b></p> <table border="1"> <thead> <tr> <th colspan="2">Combined visual and landscape impact of existing lines</th> </tr> </thead> <tbody> <tr> <td>4ZJ.1</td> <td>25</td> </tr> <tr> <td>4ZJ.2</td> <td>10</td> </tr> <tr> <td>4ZJ.3</td> <td>8</td> </tr> <tr> <td>4ZJ.4</td> <td>13</td> </tr> <tr> <td>4VM</td> <td>10</td> </tr> </tbody> </table>	Combined visual and landscape impact of existing lines		4ZJ.1	25	4ZJ.2	10	4ZJ.3	8	4ZJ.4	13	4VM	10	2021
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<p><b>Over Stilton to Thimbleby Bridleway Upgrade project</b> Project addresses visual impacts by upgrading an existing bridleway to an all-weather link so that park users have an alternative route that doesn't cross beneath a pre-existing transmission line.</p> <table border="1"> <thead> <tr> <th>EPI Output</th> <th>Mitigation activity</th> <th>Volume</th> </tr> </thead> <tbody> <tr> <td>Reduced visual impact</td> <td>Bridleway upgrade to all weather resurfacing</td> <td>2.2km</td> </tr> </tbody> </table>			EPI Output	Mitigation activity	Volume	Reduced visual impact	Bridleway upgrade to all weather resurfacing	2.2km	<p><b>North Yorkshire Moors National Park</b></p> <table border="1"> <thead> <tr> <th colspan="2">Combined visual and landscape impact of existing lines</th> </tr> </thead> <tbody> <tr> <td>4VC</td> <td>6</td> </tr> </tbody> </table>	Combined visual and landscape impact of existing lines		4VC	6	2019														
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<p><b>Central Longdendale Trails Landscape and Enhancements project</b>  Project addresses visual and landscape impact of three sections of existing line through screening, re-directing views, landscape enhancement and increasing access to areas to direct attention away from pylons.</p>			<p><b>Peak District National Park</b></p> <table border="1"> <tr> <th colspan="2">Combined visual and landscape impact of existing lines</th> </tr> <tr> <td>4ZO.3</td> <td>27</td> </tr> <tr> <td>4ZO.4</td> <td>28</td> </tr> <tr> <td>4ZO.5</td> <td>16</td> </tr> </table>	Combined visual and landscape impact of existing lines		4ZO.3	27	4ZO.4	28	4ZO.5	16	2020
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4ZO.4	28											
4ZO.5	16											
<b>EPI Output</b>	<b>Mitigation activity</b>	<b>Volume</b>										
Reduced visual impact	Path repair	3000m <sup>2</sup>										
	Bridge rebuild	1										
	Car park improvements	1										
	New benches	15										
Landscape enhancement	Rhododendron control	2500m <sup>2</sup>										
	Grassland management	2500m <sup>2</sup>										
Reduced visual impact and landscape enhancement	Scrub clearance	2000m <sup>2</sup>										
	Tree management	1550m <sup>2</sup>										

<p><b>Lost Landscapes project</b> Project addresses the visual and landscape impacts of the overhead line on publicly accessible viewpoints and enhances the landscape through restoration and creation of traditional boundary features and parkland.</p>		<p><b>Clwydian Range and Dee Valley Area of Outstanding Natural Beauty</b></p>	<p><b>2022</b></p>		
<p><b>EPI output</b></p>		<p><b>Mitigation activity</b></p>	<p><b>Volume</b></p>		
<p>Landscape enhancement and reduced visual impact</p>	<p>Hedging and fencing</p>	<p>At least 3000m</p>			
	<p>Veteran tree management</p>	<p>6</p>			
	<p>Scrub clearance</p>	<p>At least 2 ha</p>			
	<p>Heathland management</p>	<p>600 ha</p>			
	<p>Slate and dry stone wall restoration</p>	<p>230m</p>			
	<p>Tree planting</p>	<p>At least 1 ha</p>			
	<p>Improved roadside reserves</p>	<p>2000m</p>			
	<p>Pond creation</p>	<p>1</p>			
		<p><b>Combined visual and landscape impact of existing lines<sup>1</sup></b></p>	<table border="1"> <tr> <td>4ZB</td> <td>18</td> </tr> </table>	4ZB	18
4ZB	18				

<sup>1</sup> The combined impact scores are from the 2014 Landscape and Visual Impact Assessment report on pre-existing transmission lines. Line sections with a measure of 25 or greater denote very high impact, 20 to 24 is assessed as high impact, 10 to 19 as moderate impact and lines with a score of 10 or less have a lower impact.

**Magical Marshwood Vale project**  
 Project reduces the visual and landscape impact of the overhead lines by restoring and managing ancient woodland and introducing alternative recreation opportunities that distract from the electricity infrastructure.

EPI output	Mitigation activity	Volume
Landscape enhancement and reduced visual impact	Hedge laying	Approx. 1,800m
	Tree planting	Approx. 186 trees
	Pond restoration	7 ponds
	Grassland restoration and scrub clearance	Approx. 7 ha

**Dorset Area of Outstanding Natural Beauty**

Combined visual and landscape impact of existing lines	
4YA.1	9
4YA.2	15
4YA.3	14

**2020**

**Woodland Improvements, Infrastructure Works and Wild Play at Holbury Manor/Warren Copse**  
 Project reduces the visual and landscape impact of the infrastructure by restoring and managing ancient woodland and introducing alternative recreation opportunities that distract from the electricity infrastructure.

EPI output	Mitigation activity	Volume
Reduced visual impact	Car park	400m <sup>2</sup>
	New benches	2
Landscape enhancement and reduced visual impact	Wild play materials	Various
	New and refurbished fencing and hedge	140m
	Tree safety work	25% of trees
Landscape enhancement	Tree thinning	2500m <sup>2</sup>
	Foot bridges	2

**New Forest National Park**

Combined visual and landscape impact of existing lines	
4YD.2	14
4YD.3	4

**2021**

**Longdendale Landscape Restoration project**  
 Project aims to enhance the landscape character of the area by restoring key landscape features which will offer screening and filtering of views of overhead lines from certain locations.

EPI output	Mitigation activity	Volume
Landscape enhancement and reduced visual impact	Woodland management	Approx. 7 ha
	Native woodland creation	Approx. 3 ha
	Dry stone wall restoration	450m

**Peak District National Park**

Combined visual and landscape impact of existing lines	
4ZO.3	27
4ZO.4	28
4ZO.5	16

**2021**

**Dyffryn Ffestiniog East Woodland Restoration and Landscape Improvement project**

Project addresses the visual and landscape impacts of overhead lines by restoring hedgerows and native woodland and managing invasive species.

EPI output	Mitigation activity	Volume
Landscape enhancement and reduced visual impact	New tree planting	Approx. 8,500 trees
	Spot felling of canopy	Appro. 30% of 12 ha
	Rhododendron control	700ha
	Dry stone walling	Approx. 400m <sup>2</sup>
	Restoring hedgerows	Approx. 1,000m
	Clear-fell of conifer	Approx. 14 ha

**Snowdonia National Park**

Combined visual and landscape impact of existing lines	
4ZC.1	26
4ZC.2	14
XO.1	16
ZK.1	22

**2021**

<p><b>Woodland Restoration and Landscape Improvement project</b> Project addresses visual and landscape impact of six sections of existing line by restoring native woodland and hedgerows, removing invasive non-native species to improve patchwork views of landscape from afar and screen lines from close quarters.</p> <table border="1"> <thead> <tr> <th>EPI output</th> <th>Mitigation activity</th> <th>Volume</th> </tr> </thead> <tbody> <tr> <td>Landscape enhancement and reduced visual impact</td> <td>Rhododendron control</td> <td>1,300ha</td> </tr> <tr> <td></td> <td>Restoring hedgerows</td> <td>2,500m</td> </tr> <tr> <td></td> <td>Dry stone walling</td> <td>30m</td> </tr> <tr> <td></td> <td>Re-stocking woodlands and thinning conifers</td> <td>8.21ha</td> </tr> </tbody> </table>	EPI output	Mitigation activity	Volume	Landscape enhancement and reduced visual impact	Rhododendron control	1,300ha		Restoring hedgerows	2,500m		Dry stone walling	30m		Re-stocking woodlands and thinning conifers	8.21ha	<p><b>Snowdonia National Park</b></p> <table border="1"> <thead> <tr> <th colspan="2">Combined visual and landscape impact of existing line sections</th> </tr> </thead> <tbody> <tr> <td>4ZC.1</td> <td>26</td> </tr> <tr> <td>4ZC.2</td> <td>14</td> </tr> <tr> <td>XO.1</td> <td>16</td> </tr> <tr> <td>ZK.1</td> <td>22</td> </tr> <tr> <td>ZK.2</td> <td>13</td> </tr> <tr> <td>ZK.3</td> <td>13</td> </tr> </tbody> </table>	Combined visual and landscape impact of existing line sections		4ZC.1	26	4ZC.2	14	XO.1	16	ZK.1	22	ZK.2	13	ZK.3	13	<p><b>2021</b></p>
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**(i) Licensee’s notice to the Authority**

6G.12 Subject to Part A of this condition, the licensee may request the Authority to approve Allowed Expenditure for an EPI Output by giving notice of its request to the Authority.

6G.13 A notice under paragraph 6G.12 of this condition must contain:

- (a) a description of the proposed EPI Output and the estimated benefits the Output will deliver in relation to the mitigation of impacts of Pre-existing Transmission Infrastructure on the visual amenity of a Designated Area;
- (b) supporting evidence that the proposed EPI Output has been identified and prioritised in accordance with the licensee's Policy approved by the Authority under the provisions of Part A of this condition;
- (c) forecast costs for delivering an EPI Output, with an expenditure profile for all Relevant Years of delivery, and a breakdown of the total forecast costs including the costs of any additional preliminary work to determine the feasibility of an EPI Output;
- (d) analysis of any relevant issues in relation to the proposed EPI Output that might reduce the feasibility of delivering the proposed EPI Output or significantly increase the costs;
- (e) proposed timescales for delivery of the proposed EPI Output; and
- (f) any other analysis or information that the Authority considers may be relevant to its consideration of the licensee's request.

**(ii) Determination by the Authority**

6G.14 Where the Authority receives a notice from the licensee under paragraph 6G.12 of this condition in relation to an EPI Output, it will determine:

- (a) whether the proposed EPI Output is compliant with the licensee's Policy approved by the Authority in accordance with Part A of this condition;
- (b) whether the proposed costs for delivery of the EPI Output are economical and efficient; and, if so,
- (c) the adjustment that is to be given effect through a modification made in accordance with the provisions of Part C of this condition.

**(iii) Revocation**

6G.15 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6G.14 of this condition.

**Part C: Modification to specify EPI Outputs and Allowed Expenditure**

6G.16 The Authority may direct modifications to Table 1 in Part B of this condition and to Table 2 in Part D of this condition in order to add details, including the amount of Allowed Expenditure, of an EPI Output.

6G.17 The Authority's determinations on Allowed Expenditure for EPI Outputs will not exceed the amount of the initial national expenditure cap set out in Final Proposals or the amount of the expenditure cap that may be set by the Authority subsequently.

6G.18 A direction issued by the Authority under paragraph 6G.16 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 6G.16 of this condition:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) specifying, where appropriate the EPI Output and/or Allowed Expenditure adjustments that have been determined in accordance with Part C of this condition; and
  - (iii) specifying the time which must not be less than a period of 28 days within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

**Part D: Determination of revisions to EPIE values by the Authority**

6G.19 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part E of this condition, specifying the revised EPIE values for the licensee for Relevant Year t.



6G.20 The total amount of Allowed Expenditure for each Relevant Year t for EPI Outputs after any modifications directed under Part C of this condition will be deemed to be set out in Table 2 of this condition.

**Table 2: EPIE values after modifications in Part C of this condition**

£m (2009/10 prices)	Relevant Year t							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	0.0	0.0	0.082	0.171	0.562	0.322	0.226	0.033

6G.21 Subject to paragraph 6G.19 of this condition, the Authority may revise the EPIE values for a Relevant Year or Years earlier than Relevant Year t ('earlier Relevant Years'), notwithstanding that the EPIE values concerned might have been previously revised, where:

- (a) the revision is necessary to reflect a review by the Authority of the value of the EPIE terms in respect of the earlier Relevant Years to correct errors in relation to those values, or because the licensee has not Delivered or has only partially Delivered an EPI Output set out in Table 1 of this condition;
- (b) the Authority will, in calculating EPIE values, adjust Allowed Expenditure in relation to the EPI Output to ensure efficiently incurred costs by the licensee to be recovered; and
- (c) the revised EPIE value for the earlier Relevant Years will be specified in a direction issued in accordance with the provisions of Part C of this condition.

**Part E: Procedure to be followed for the direction of EPIE values**

6G.22 A direction issued by the Authority under paragraph 6G.19 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 6G.19 of this condition:

- (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) stating, where appropriate, that any EPIE values have been determined in accordance with Part B of this condition; and
  - (iii) specifying the time (which must not be less than a period of 14 days) within which representations concerning the proposed direction may be made.
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

6G.23 Where the Authority directs any EPIE values for 'earlier Relevant Years' under paragraph 6G.19 of this condition, the effect of using those revised EPIE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6G.24 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised EPIE values by 30 November, then no revised EPIE values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised EPIE values in respect of the next Annual Iteration Process.

## **Special Condition 6H. Arrangements for the recovery of uncertain costs**

### **Introduction**

6H.1 The purpose of this condition is:

- (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 Enhanced Physical Site Security Costs ( “an uncertain cost category”); and
- (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6H.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  $MOD_t$  as calculated for Relevant Year  $t$  for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an appropriate adjustment to the licensee’s Base Transmission Revenue in a manner that takes account of Allowed Expenditure levels in relation to the uncertain cost category specified in paragraph 6H.1 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.

6H.3 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**

6H.4 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**

6H.5 Subject to paragraph 6H.8 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 Opening Base Revenue Allowance was derived;
- (b) takes account of any relevant adjustments previously determined under this condition;
- (c) in aggregate constitutes a material amount within the meaning of paragraph 6H.6 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.

6H.6 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.

6H.7 A proposal made under paragraph 6H.5 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**

6H.8 The licensee and the Authority may only propose relevant adjustments in relation to the uncertain cost categories 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.

6H.9 Relevant adjustments relating to any uncertain cost category may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 6H.5 to 6H.7 of this condition.

6H.10 Relevant adjustment proposals made outside the application windows set out in paragraph 6H.8 of this condition will not be determined by the Authority under the provisions of this condition.

### **Authority's power to determine relevant adjustments**

6H.11 Where a proposal has been duly made under paragraph 6H.5 of this condition, the Authority may, within four months after the close of the relevant application window, determine any relevant adjustments that are to be made to the licensee's Allowed Expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate.

6H.12 In determining any relevant adjustment under paragraph 6H.11 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.

6H.13 A determination under paragraph 6H.11 of this condition may confirm, reject, or vary the proposed relevant adjustment.

6H.14 Without limiting the general effect of paragraph 6H.13 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.

6H.15 The Authority will notify the licensee of any determination made under paragraph 6H.11 of this condition within 14 days of making the determination concerned.

6H.16 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 6H.5 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.

#### **Part B: Determination of revisions to PCFM Variable Values**

6H.17 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

- (a) Enhanced Physical Site Security Costs (IAEEPS values).

6H.18 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.

6H.19 Determinations under paragraph 6H.18 of this condition are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.

6H.20 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year  $t$ , the effect of using those revised values in the

Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term  $MOD_t$  for Relevant Year  $t$  and, for the avoidance of doubt, no previously directed value of the term  $MOD_t$  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**

6H.21 Subject to paragraph 6H.24 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition in relation to the uncertain cost category will be directed by the Authority by:

- (a) 30 November 2015 (or as soon as reasonably practicable thereafter), following the first application window; and
- (b) 30 November 2018 (or as soon as reasonably practicable thereafter), following the second application window.

6H.22 Before issuing any directions under paragraph 6H.21 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

6H.23 The notice referred to in paragraph 6H.22 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.

6H.24 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 6H.23 of this condition, and give reasons for its decisions in relation to them.

6H.25 If, for any reason, the Authority does not make a direction required under paragraph 6H.21 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 MOD<sub>t</sub> under paragraph 5B.12 of that condition.

**Part D: Interpretation**

6H.26 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretations) 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**

(see paragraph 6H.6 of this condition)

<b>Licensee</b>	<b>Totex Incentive Strength Rate (%)</b>
National Grid Electricity Transmission plc	46.89

**APPENDIX 2: MATERIALITY THRESHOLD AMOUNT**

(see paragraph 6H.6 of this condition)

<b>Licensee</b>	<b>£m</b>
National Grid Electricity Transmission plc	1634.580



## **Special Condition 6I. Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure**

### **Introduction**

6I.1 The purposes of this condition are:

- (a) to specify the Baseline Wider Works Outputs and Strategic Wider Works Outputs that the licensee must Deliver during the Price Control Period and the Allowed Expenditure associated with those outputs; and
- (b) to determine and direct any appropriate revisions to PCFM Variable Values relating to adjustments to Wider Works Allowed Expenditure (WWE values) and the Relevant Years to which those revised WWE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6I.2 The WWE value relating to a particular Relevant Year, is the amount of Allowed Expenditure (in 2009/10 prices) for all Strategic Wider Works Outputs and for the Baseline Wider Works Output associated with the Western High Voltage Direct Current (WHVDC) link ("WHVDC Output"), for that Relevant Year as determined in accordance with this condition.

6I.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of Baseline Wider Works Outputs;
- (b) the approval and specification of Strategic Wider Works Outputs;
- (c) the amendment of Baseline Wider Works Outputs and Strategic Wider Works Outputs in the context of an Output Amendment for changes in system background as set out in Part D of this condition;
- (d) the approval of changes to Allowed Expenditure in respect of Strategic Wider Works Outputs and for the WHVDC Output for particular Relevant Years in the context of a Cost and Output Adjusting Event, as specified in Part B of this condition;
- (e) the determination and direction of revised WWE values to reflect changes to Allowed Expenditure so that, as a consequence of the

Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:

- (i) reflects approved changes to Allowed Expenditure for Strategic Wider Works Outputs and for the WHVDC Output specified in this condition, and
- (ii) takes account of approved changes to Allowed Expenditure for Strategic Wider Works Outputs and for the WHVDC Output specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

6l.4 This condition should be read and construed in conjunction with Special Condition 5B, and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

**Part A: Specification of Baseline Wider Works and Strategic Wider Works Outputs**

6l.5 Table 1 of this condition sets out details of the Baseline Wider Works Outputs that the licensee is required to Deliver during the Price Control Period and Allowed Expenditure for Delivering those outputs that have been determined at the outset of the Price Control Period.

6l.6 The Allowed Expenditure set out in Table 1 of this condition have been reflected in:

- (a) the licensee's Opening Base Revenue Allowance, set against the licensee's name in Appendix 1 to Special Condition 3A;
- (b) IWW values (defined in Special Condition 6J (Allowed Expenditure for Incremental Wider Works Outputs) contained in the PCFM Variable

Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013 (the Allowed Expenditure for Baseline Wider Works Outputs 1 to 3 in Table 1 of this condition have been reflected in IWW values); and

- (c) WWE values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013 (the Allowed Expenditure for the WHVDC Output specified in Table 1 of this condition have been reflected in WWE values).

61.7 Table 2 of this condition provides supplementary information on the funding arrangements for the WHVDC Output which the licensee is developing jointly with SP Transmission Ltd. Table 2 of this condition sets out the total Allowed Expenditure determined by the Authority for the project as a whole and for the licensee, including efficient costs determined for the Relevant Years commencing 1 April 2011 and 1 April 2012 as reflected in Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). It also sets out the costs allocation ratio to apply to the share of expenditure that is made by the licensee as set out in Ofgem's 27 July 2012 decision letter on WHVDC funding arrangements ("WHVDC Decision Letter").





Output description	Allowed Expenditure £m (2009/10 prices)								
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for Price Control Period
Boundary: B7a  Starting transfer capacity: 4,900MW  Additional transfer capacity: 400MW  Delivered transfer capability: 5,300MW  <b>Delivery required 2014/15</b>									
<b>4. Western HVDCOutput</b>  Boundary: B6  Starting transfer capacity: 2,200MW	161.700	230.400	208.900	20.100	0.0	0.0	0.0	0.0	621.100



**Table 2: Supplementary information in respect of the WHVDC Link**

Allowed Expenditure for WHVDC Link £m (2009/10 prices)	Cost allocation ratio	Prior to Price Control Period		Price Control Period								Total
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	
<b>NGET</b>	68.5%	15.5	83.0	161.7	230.4	208.9	20.1	0.0	0.0	0.0	0.0	719.7
<b>PROJECT TOTAL</b>		<b>22.7</b>	<b>121.2</b>	<b>236.0</b>	<b>336.4</b>	<b>305.0</b>	<b>29.4</b>	0.0	0.0	0.0	0.0	<b>1050.7</b>



- 6l.8 During the Price Control Period the licensee can request that the Authority approve Allowed Expenditure for Strategic Wider Works Outputs. These are additional to the Baseline Wider Works Outputs specified in Table 1 of this condition.
- 6l.9 All Strategic Wider Works Outputs will be deemed to be specified in Table 3 of this condition following determination by the Authority in accordance with Part F of this condition.
- 6l.10 Where the licensee undertakes to develop Strategic Wider Works Outputs with another TO, supplementary information in respect of the determination by the Authority on those Strategic Wider Works Outputs will be deemed to be specified in Tables 4 and 5 of this condition. This will include the total Allowed Expenditure for the whole of the Strategic Wider Works Output and for the licensee, as well as the cost allocation methodology for the share of expenditure to be made by the licensee in respect of a particular Strategic Wider Works Output.





6l.11 The licensee must report annually to the Authority on progress made in Delivering the outputs specified in Tables 1 and 3 of this condition along with information on its actual expenditure incurred in accordance with the RIGs.

**Part B: Cost and Output Adjusting Events**

6l.12 This Part B (which should be read in conjunction with Part C of this condition) provides for a Cost and Output Adjusting Event (COAE) to have effect in relation to the outputs specified in Table 5 in this Part B.

**Table 5: Outputs specified in this condition eligible for COAE**

<b>Output name</b>	<b>Relevant total Allowed Expenditure (£m, 2009/2010 prices)</b>	<b>Joint or licensee only Delivery</b>
<b>WHVDC Baseline Output</b>	£1050.7	Joint - SP Transmission Ltd

6l.13 For the purposes of this condition, a COAE arises where the Authority is satisfied that:

- (a) a pre-defined exceptional event as defined in paragraph 6l.14 of this condition has occurred that the licensee could not have reasonably foreseen and/or economically or efficiently planned a contingency for;
- (b) the single pre-defined exceptional event has resulted in a change to the scope of construction works required to Deliver the output and will cause expenditure relative to the relevant total Allowed Expenditure specified in Table 5 of this condition to be incurred or saved and that the difference before the application of the Totex Incentive Strength Rate will be no less than:
  - (i) 20% for a Strategic Wider Works Output (in nominal values); or
  - (ii) 10% in the case of the WHVDC Output (in nominal values);

- (c) the difference in expenditure:
  - (i) is expected to be efficiently incurred or saved; and
  - (ii) cannot otherwise be recovered under the revenue allowances provided by this condition or by or under any other provision within this licence;

6l.14 In paragraph 6l.13, “a pre-defined exceptional event” is limited to the following:

- (a) extreme weather events (meaning a worse than 1 in 10 probability for land-based activity, and equivalent provisions for marine-based activity);
- (b) the imposition of additional terms or conditions of any statutory consent, approval or permission (including but not limited to planning consent); or
- (c) unforeseen ground or sea-bed conditions.

6l.15 For the purposes of paragraph 6l.14(b) of this condition, the Authority will take into account any additional considerations provided in the WHVDC Decision Letter or that may be identified in the Authority’s determination on a particular Strategic Wider Works Output as to the nature of expenditure to be taken into account by the Authority in its consideration of whether a COAE has arisen.

6l.16 In paragraph 6l.13 of this condition, “change to the scope of construction works” means a change that is necessary to the scope and/or scale of those works as a result of a single pre-defined exceptional event in respect of an output set out in Table 5 of this condition.

### **Part C: Assessment of COAE**

6l.17 This Part C sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a COAE has occurred; and, if so,
- (b) to determine the adjustment that is to be made because of it.

#### **(i) Licensee’s notice to the Authority**

6l.18 Where the licensee considers, and can provide supporting evidence, that a COAE has occurred in relation to an output specified in Table 5 in Part B of this condition, it must give notice of that event to the Authority as soon as is

reasonably practicable after that event has occurred, and in any event within three months after the end of the Relevant Year in which it occurred (or by such later date as the Authority may notify to the licensee).

6l.19 A notice under paragraph 6l.18 of this condition must:

- (a) be a joint submission with the relevant Transmission Licensees if the notice is in relation to an output specified as being Joint Delivery in Table 5 of Part B to this condition, and set out the change of costs for the output as a whole with reference to the cost allocation methodology set out in the relevant decision letter or SWW determination or a proposal for this if it has not been decided;
- (b) set out the reasons for the request, along with a description of the pre-defined exceptional event specified in Part B to this condition to which the notice relates and why the licensee considers it to be a COAE;
- (c) comply with any relevant requirements the Authority may have set in relation to the COAE provisions in its WHVDC Decision letter or when making its determination on a Strategic Wider Works Output;
- (d) describe progress made in relation to its original project plans for the Delivery of the WHVDC Output or a Strategic Wider Works Output as specified in Part A of this condition;
- (e) describe the requested changes in Part A of this condition and where appropriate to Table 6 in Part G of this condition;
- (f) specify the costs that the licensee expects to be incurred or saved by the COAE, and explain how the amount of those costs has been calculated including relevant evidence on the change to the scope of the construction works;
- (g) provide revised project development plans, design works, forecast costs for the affected project cost items, cost breakdowns for the affected project cost items, annual expenditure profiles, and the construction programme;

- (h) specify whether the licensee expects the COAE to have an impact on the timeline for the Delivery of the WHVDC Output or Strategic Wider Works Output and explain what actions it has or will take to mitigate the impact of the event on the scheduled Delivery date;
- (i) specify any other changes to the output specified in Part A of this condition that the licensee considers necessary as a consequence of the event, and explain how those changes have been calculated;
- (j) describe why the licensee considers that the relevant costs cannot otherwise be recovered under the revenue allowances provided by this condition or by or under any other provision of this licence;
- (k) confirm that none of the costs that are the subject of the notice has been, or will be, notified to the Authority in relation to any other revenue recovery arrangements in this licence; and
- (l) include any other analysis or information that the licensee considers may be relevant to the Authority's consideration of its request.

6l.20 The notice must also contain or be accompanied by:

- (a) details of any relevant calculations of the licensee in which revised expenditure or output specifications have been estimated, and any relevant supporting information;
- (b) a statement procured from independent technical advisers that assess whether or not amendments in relation to the scope of the works, the costs and Delivery timing fairly reflect the effects of the pre-defined exceptional event;

**(ii) Determination by the Authority**

6l.21 Where the Authority receives notice from the licensee under paragraph 6l.18 to this condition, it will determine in a manner so as to facilitate the timely Delivery of the WHVDC Output or SWW Outputs:

- (a) whether a COAE has occurred in relation to an output that is specified in Table 5 of Part B of this condition; and

- (b) whether the output will remain economical and efficient as a consequence of the pre-defined exceptional event; and
- (c) subject to paragraph 6l.21(a) and (b) of this condition, the adjustment that is to be given effect through a modification under Part G of this condition in relation to the relevant total Allowed Expenditure specified for the output in Table 5 of this condition, including where relevant the COAE for the project as a whole if the relevant project is specified as being Joint Delivery and apportioning this to the licensee where appropriate with reference to the methodology set out in the relevant decision letter or SWW Output determination.

6l.22 Where the Authority determines under paragraph 6l.21 of this condition that each of sub-paragraphs (a) and (b) is satisfied, the adjustment that it determines under sub-paragraph (c) of paragraph 6l.21 must be such as to ensure that the financial position and performance of the licensee will, so far as is reasonably practicable, remain the same as if the COAE had not occurred.

### **(iii) Revocation**

6l.23 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6l.21 of this condition.

## **Part D: Amendments for Changes in System Background**

6l.24 This Part (which should be read in conjunction with Part E of this condition) provides for an Output Amendment (OA) to have effect in relation to Baseline Wider Works Outputs and Strategic Wider Works Outputs specified in Tables 1 or 3 in Part A of this condition.

6l.25 For the purposes of this condition, an OA arises where the Authority is satisfied that:

- (a) there have been changes in the system background compared with the assumptions used initially to model and specify a Baseline Wider Works Output or a Strategic Wider Works Output in Tables 1 or 3 in Part A of this condition.
- (b) those changes will directly result in a difference between:



- (i) the capacity increase of the Baseline Wider Works Output or Strategic Wider Works Output in Tables 1 or 3 in Part A respectively;
- (ii) the achievable capacity increase; and
- (c) amending the Baseline Wider Works Output or Strategic Wider Works Output with a revised capacity increase based on the new information about the system background has no implications for the Allowed Expenditure specified in Tables 1 or 3 in Part A of this condition respectively.

6l.26 In paragraph 6l.25 of this condition, “changes in the system background” mean unforeseen changes in the generation and demand background.

**Part E: Assessment of OA**

6l.27 This Part E sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a Baseline Wider Works Output and a Strategic Wider Works Output specified in Tables 1 or 3 in Part A of this condition requires an OA (within the meaning of Part D) as a direct result of changes in the system background; and, if so,
- (b) to determine the OA to the Baseline Wider Works Output or the Strategic Wider Works Output that is to be made because of those changes.

**(i) Licensee’s notice to the Authority**

6l.28 Where the licensee considers, and can provide supporting evidence, that changes in the system background compared with the initial assumptions used to specify a Baseline Wider Works Output or a Strategic Wider Works Output as set out in Tables 1 or 3 in Part A of this condition has had an impact on the description of a Baseline Wider Works Output or a Strategic Wider Works Output, it must give notice to the Authority as soon as is reasonably practicable, and in

any event within three months after the end of the Relevant Year in which the Baseline Wider Works Output or the Strategic Wider Works Output was Delivered (or by such later date as the Authority may notify to the licensee).

6l.29 A notice under paragraph 6l.28 of this condition must include:

- (a) a description of the Baseline Wider Works Output or the Strategic Wider Works Output to which the notice relates;
- (b) a progress report in relation to Delivery of the Baseline Wider Works Output or the Strategic Wider Works Output to which the notice relates;
- (c) the reasons for the requested adjustment, along with relevant supporting evidence of the changes in the system background to which the notice relates and why the licensee considers that those changes have directly resulted in a difference between the achievable description of outputs and the relevant description of outputs specified in Tables 1 or 3 in Part A of this condition; and
- (d) a statement that an amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output based on the revised system background would not have implications for the Allowed Expenditure for Delivering that output.

6l.30 The notice must also contain or be accompanied by:

- (a) consideration of whether the amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output set out in the notice has any implications for other Baseline Wider Works Output or Strategic Wider Works Outputs specified in Tables 1 or 3 in Part A of this condition; and
- (b) any other analysis or information that the licensee considers relevant to the Authority's assessment of the event.

**(ii) Determination by the Authority**

6l.31 Where the Authority receives notice from the licensee under paragraph 6l.28 of this condition, it will determine:

- (a) whether an amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output as set out in the notice is a direct result of changes in the system background; and, if so,
- (b) the adjustment that is to be given effect through a modification under Part F of this condition in relation to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output.

**(iii) Revocation**

6l.32 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6l.31 of this condition.

**Part F: Modification to amend the details of existing Baseline Wider Works Outputs or Strategic Wider Works Outputs or to approve additional Strategic Wider Works Outputs**

6l.33 The Authority may direct modifications to Tables 1 to 4 in Part A, Table 5 in Part B and, where applicable to Table 6 in Part G of this condition in order to:

- (a) amend the details of Baseline Wider Works Outputs or Strategic Wider Works Outputs specified in Tables 1 to 4 in Part A of this condition; or
- (b) add details, including the amount of Allowed Expenditure, of additional Strategic Wider Works Outputs for inclusion in Table 3 and Table 4 (if applicable) in Part A, Table 5 in Part B, and Table 6 in Part G of this condition, by applying the provisions of this Part F.

6l.34 A direction under paragraph 6l.33(a) of this condition may arise from:

- (a) a COAE defined in Part B of this condition and determined by the Authority in accordance with Part C of this condition; or
- (b) an OA defined in Part D of this condition and determined by the Authority in accordance with Part E of this condition.

6l.35 A direction issued by the Authority under paragraph 6l.33 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 6I.33 of this condition:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) specifying, where appropriate, any output and/or Allowed Expenditure adjustments that have been determined in accordance with Part C, Part E and Part F of this condition; and
  - (iii) specifying the time (which must not be less than a period of 28 days within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

**(i) Licensee's notice to the Authority in respect of new Strategic Wider Works Outputs**

6I.36 Where the licensee proposes to request that the Authority specify a new Strategic Wider Works Output then it must give notice to the Authority in such form as the Authority may from time to time require.

6I.37 The licensee must provide notice of such a request in accordance with the timeline set out in Final Proposals and in reasonable timescales for the Authority to conduct its assessment in accordance with the timeline set out in Final Proposals or as amended by the Authority in further guidance it may issue from time to time (or by such alternative date as the Authority may notify to the licensee).

6I.38 A notice under paragraph 6I.36 of this condition must contain:

- (a) a description of the proposed Strategic Wider Works Output and requested Allowed Expenditure for each Relevant Year, including evidence that the proposed output meets the materiality criteria set out by the licensee in the licensee's Network Development Policy in accordance with Part B of Special Condition 6J (Allowed Expenditure for Incremental Wider Works);

- (b) the reasons for the request, including the associated needs case and cost-benefit analysis for the Strategic Wider Works Output and Delivery timescales. ~~T~~ (this ~~must~~ ~~should~~ include all relevant supporting analysis, such as any analysis undertaken by the ~~system operator~~ ~~licensee~~ as part of its ~~Relevant System Planning Activities~~ ~~System Operator Functions~~). In the event of any difference between the needs case and the analysis produced by the ~~licensee~~ ~~system operator~~ as part of its ~~Relevant System Planning Activities~~ ~~System Operator Functions~~, an explanation of the difference and any associated implications must be provided; and
- (c) a planned submission timetable for further information that the licensee considers relevant to the Authority's assessment of the request, taking into account any guidance that may be issued by the Authority for this purpose from time to time.

6l.39 For the purposes of paragraph 6l.38(c) of this condition, relevant information is expected to include, without limitation:

- (a) a specification of the potential risks associated with Delivery and ongoing operation of the proposed Strategic Wider Works Output as well as relevant supporting information on the licensee's risk management strategy and the efficiency of its risk sharing arrangements with consumers;
- (b) a description of the licensee's Delivery plans including a project assessment timeline, project development plans, planning consent details and status, details of the construction programme, and a scheduled completion date.
- (c) evidence of efficient costs including information on detailed design works, the licensee's supplier procurement and tender procedures, forecast costs on a year by year basis, and a breakdown of the forecast costs;
- (d) a description of the additional Strategic Wider Works Output in the form set out in Table 3 in Part A of this condition; and

- (e) any other analysis or information that the licensee considers may be relevant to the Authority's consideration of its request.

**(ii) Determination by the Authority**

6l.40 Where the Authority receives notice from the licensee under paragraph 6l.36 of this condition in relation to an additional Strategic Wider Works Output, it may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the request and may specify timescales for provision of this information such that it may be taken into account by the Authority for the purposes of reaching a determination under this paragraph. Subject to timely provision of such information by the licensee, and following consultation with such other parties as the Authority considers may be affected by its determination, the Authority will then determine:

- (a) whether the needs case, technical scope and timing of Delivery are sufficiently well justified and represent long term value for money for existing and future consumers;
- (b) whether the licensee has developed a sufficiently robust development plan and risk sharing arrangements to Deliver the output efficiently; and
- (c) whether there is a sufficiently advanced technical option(s) for the Authority to assess efficient costs and specify a Strategic Wider Works Output; and if so
- (d) the adjustment that is to be given effect through a modification under this Part F.

**(iii) Revocation**

6l.41 The Authority may, after consulting the licensee, revoke a determination made under paragraph 6l.40 of this condition.

**Part G: Determination of revisions to WWE values**

6l.42 This Part sets out the process for issuing revisions to WWE values for use in the Annual Iteration Process for the ET1 Price Control Financial Model.

6l.43 Table 6 of this condition sets out the amounts of Allowed Expenditure for Strategic Wider Works Output or the WHVDC Output after any modifications directed under Part F of this condition and the total of those amounts for each Relevant Year of the Price Control Period.

**Table 6: WWE values after modifications under Part F**

£m (2009/10 prices)	Relevant Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
output name								
WWE total								

6l.44 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter ascertain whether the WWE value for any Relevant Year is different from the Allowed Expenditure total for the corresponding Relevant Year set out in Table 6 of this condition and, in any case where it is different, the Authority will:

- (a) determine that the WWE value for the Relevant Year concerned is to be revised so as to be the same as the Allowed Expenditure total in Table 6 of this condition; and
- (b) issue a direction, in accordance with the provisions of Part H of this condition specifying any revised WWE values determined under subparagraph (a) and the Relevant Years to which they relate.

**Part H: Procedure for direction of revised WWE values by the Authority**

6l.45 Any revised WWE values determined by the Authority in accordance with Part G of this condition will be directed by the Authority by 30 November or as soon as reasonably practicable thereafter in each Relevant Year t-1.

6l.46 A direction issued by the Authority under paragraph 6l.45 of this condition will be of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6l.45 of this condition:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) stating, where appropriate, that any WWE values have been determined in accordance with Part G of this condition (as appropriate); and
  - (iii) specifying the time (which must not be less than a period of 14 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.

6l.47 Where the Authority directs any revised WWE values relating to Relevant Years which are earlier than Relevant Year t (following the date of the direction), the effect of using those revised WWE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6l.48 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised WWE values by 30 November, or as soon as reasonably practicable thereafter, then no revised WWE values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1, and the Authority will take full account of the position when determining and directing any revised WWE values in respect of the next Annual Iteration Process.



## Special Condition 6J. Allowed Expenditure for Incremental Wider Works

Note: In our previous drafting, we amended Part C: Calculation of Allowed Expenditure for IWW Outputs, which included inserting Paragraph 6J.14(d) to cover the post-separation period. We are now re-instating the original drafting as we are now of the view that the amendments proposed are incorrect.

### Introduction

6J.1 The purposes of this condition are:

- (a) to specify the basis on which the licensee's Allowed Expenditure for Incremental Wider Works ('IWW Outputs') on the licensee's Transmission System is to be determined; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the Incremental Wider Works Allowed Expenditure ('IWW values') and the Relevant Years to which those revised IWW values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6J.2 The IWW values calculated for a particular Relevant Year will be the amount of Allowed Expenditure (in 2009/10 prices) necessary for the licensee to Deliver IWW Outputs as determined in accordance with the provisions of this condition. The IWW values as at 1 April 2013 are equal to the forecast amounts of Allowed Expenditure specified at the outset of the Price Control Period.

6J.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of baseline and forecast IWW Outputs and the associated Allowed Expenditure;
- (b) the determination in each Relevant Year t-1 of one or more revisions to IWW values for the IWW Outputs the licensee Delivers in each Relevant Year t-2;

- (c) the determination of the licensee's Allowed Expenditure for IWW Outputs the licensee forecast it will Deliver in the first two years of the next price control period starting on 1 April 2021; and
- (ii) direction of revised IWW values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
  - (i) reflects Allowed Expenditure amounts determined under Part D of this condition; and
  - (ii) takes account of Allowed Expenditure for IWW Outputs for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of Annual Iteration Process input variable values for Totex Incentive Mechanism adjustments) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

6J.4 This condition should be read and construed in conjunction with, Special Condition 5B, and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

#### **Part A: Allowed Expenditure for IWW Outputs**

6J.5 Table 1 of this condition sets out the licensee's baseline expenditure (BIWW) for each Relevant Year of the Price Control Period and the associated baseline incremental Boundary Transfer Capability (BITC), measured as the change in Boundary Transfer Capability in each Relevant Year of the Price Control Period, that the licensee is forecast to achieve through a combination of Baseline Wider Works Outputs (set out in Table 1 of Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure)) and IWW Outputs changes that the licensee may determine are additionally required to comply with the licensee's Network Development Policy (NDP) pursuant to the provisions in Part B of this condition.

**Table 1: Baseline forecast of annual Boundary Incremental Transfer Capability (in MW) and Allowed Expenditure**

Annual BITC on Boundary j	Relevant Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1. B6		1,000						
2. B7		1,400						
3. B7a		400						
4. B8								
5. B9						1,000		
6. B13								
7. B14			800					
8. B14e			700	750			600	
9. NW1					2,600			
10. NW2				3,100				
11. NW3					1,500			
12. EC1						2,900		
13. EC3			1,100					
14. EC5			1,000		3,200			
15. SC1					500		500	
<b>BIWW £m (2009/10 prices)</b>	<b>276.954</b>	<b>303.284</b>	<b>264.336</b>	<b>283.164</b>	<b>133.195</b>	<b>70.252</b>	<b>27.325</b>	<b>8.569</b>

6J.6 The figures set out in Table 1 of this condition have been reflected in:

- (a) 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); and
- (b) IWW values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

## **Part B: Network Development Policy**

6J.7 The licensee must submit to the Authority on or before 1 April 2013 (or such later date as the Authority may direct) a Network Development Policy (“Policy”).

6J.8 The Policy required by paragraph 6J.7 of this condition must include:

- (a) an explanation of the objectives of the licensee’s Policy, including but not limited to the determination of the scope and timing of IWW Outputs such that are economical and efficient and meet the needs of existing and future consumers;
- (b) details of the licensee’s proposed methodology and decision making processes to achieve the objectives of the licensee’s Policy, including but not limited to:
  - (i) the development of model inputs and assumptions;
  - (ii) the approach to modelling Boundary Transfer Capability and requirements for additional capability (IWW Outputs);
  - (iii) the scope of options the licensee will consider in optioneering studies to Deliver IWW Outputs;
  - (iv) the licensee’s assessment (i.e. technical, economic and risk) of options;
  - (v) the licensee’s calculation of the unit cost of each option, which is defined as the option cost (in 2009/10 prices) (or the share of the option cost at a particular boundary) divided by the increase in boundary capability provided by the Delivered option at that boundary;
  - (vi) the decision and option selection criteria the licensee will use to determine whether or not IWW Outputs are advanced into its forward investment programme;
  - (vii) how the licensee will engage with stakeholders to provide input and review various elements such as modelling assumptions, scenarios and proposed IWW Outputs;

- (c) details of the licensee's proposed timetable for updating and consulting on its network development planning in each Relevant Year of the Price Control Period;
- (d) a description of the relevant outputs from the network development planning process including:
  - (i) an update of the licensee's near-term investment programme, and the licensee's best view of potential reinforcements that might be required in the longer term;
  - (ii) the documents the licensee intends to publish in relation to its network development planning process for stakeholders such as consultation and decision documents, and any related publications;
- (e) an explanation of the licensee's verification processes for actual changes in transfer capability on boundaries in the licensee's Transmission System as the result of IWW Outputs the licensee has Delivered which should include but is not limited to:
  - (i) a cross-check of the actual generation and demand background against the modelling assumptions used by the licensee in its network development planning process to determine the IWW Output requirement initially;
  - (ii) a cross-check of the actual security standards against the security standards used to determine the IWW Output requirement;
  - (iii) a cross-check of the transfer capability that would otherwise be available on the boundary if the IWW Output had not be Delivered; and
- (f) an explanation of how the licensee will review its Policy and network development planning process to identify potential improvements and implement modifications to further achieve the objectives of the licensee's Policy.

6J.9 Unless the Authority otherwise directs within two months of the date of submission of the Policy by the licensee in accordance with paragraph 6J.7 of

this condition, the licensee must use best endeavours to apply the methodology set out in that Policy.

6J.10 Before revising the methodology set out in the Policy, the licensee must submit a copy of the proposed revisions to the Authority.

6J.11 Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 6J.10 of this condition, the revisions will take effect and the licensee must use best endeavours to apply the Policy as revised.

### **Part C: Calculation of Allowed Expenditure for IWW Outputs**

6J.12 Subject to paragraph 6J.7 of this condition, the licensee must assess transfer capability on boundaries within the licensee's Transmission System through the application of the licensee's Policy and notify the Authority annually of the outlook for boundary transfer capability and the IWW Outputs that the licensee has determined it needs to Deliver to fulfil the objectives of the licensee's Policy referred to in paragraph 6J.8 above.

6J.13 The licensee must report annually on the actual transfer capability of boundaries in the licensees' Transmission System and verify the IWW Outputs that the licensee has Delivered in accordance with the licensee's Policy.

6J.14 The value of IWW is to be determined for each Relevant Year n (where n=2014 to 2021 for Relevant Year ending 31 March) in accordance with the following formula:

(a) For Relevant Years t = 2013/14 and 2014/15:

$$IWW_{t,n} = BIWW_n$$

(b) For Relevant Year t = 2015/16:

$$IWW_{t,n} = BIWW_n + VIWW_{t,n} + TPWW_{t,n}$$

(c) For Relevant Year t = 2016/17, ~~2017/18 and 2018/19 and all subsequent~~  
Relevant Years:

$$IWW_{t,n} = IWW_{t-1,n} + VIWW_{t,n} + TPWW_{t,n} + FIWW_{t,n}$$

~~Drafting Change: Paragraph 6J.14(d) has been added to cover the post-separation period.~~

~~d) For Relevant Years t = 2019/20 and 2020/21:~~

$$IWW_{t,n} = IWW_{t-1,n} + VIWW_{t,n} + FIWW_{t,n}$$

where:

- |                     |   |
|---------------------|---|
| n                   | means the Relevant Year for which the Allowed Expenditure is calculated.  |
| BIWW <sub>n</sub>   | means the baseline expenditure in Relevant Year n as set out in Table 1 of this condition.  |
| VIWW <sub>t,n</sub> | means the Allowed Expenditure for Delivered IWW Outputs calculated in Relevant Year t for each year n, determined in accordance with paragraph 6J.15 of this condition.   |
| TPWW <sub>t,n</sub> | means the Allowed Expenditure (in 2009/10 prices) for total expenditure efficiently incurred by the licensee to progress an IWW Output determined by the licensee in accordance with its Policy in Part B of this condition, which is then not required in the original timescales in an application of the Policy by the licensee in Relevant Year t-2 and cannot be used subsequently to contribute to the other outputs Delivered by the licensee. |
| FIWW <sub>t,n</sub> | means the Allowed Expenditure for the licensee's forecast of IWW Outputs to be Delivered in the first two years of the next price control period starting 1 April 2021, calculated in accordance with paragraph   |

6J.16 of this condition.

6J.15 The value of  $VIWW_{t,n}$  is to be determined for Relevant Year  $t = 2015/16$  and in each subsequent Relevant Year in accordance with the following formula for each Relevant Year  $n$  (where  $n=2014$  to  $2021$  for Relevant Year ending 31 March) where information is available for Relevant Year  $t-2$ :

$$VIWW_{t,n} = \{[\sum_{j=1 \text{ to } 15} (\sum_{\text{all } i} BTITC_{i,j,t-2} - BITC_{j,t-2}) \times BTUCA_j] + [\sum_{j=1 \text{ to } 15} \sum_{\text{all } i} ATITC_{i,j,t-2} \times ATUCA_{i,j}]\} \times RPE_n \times WFWW_{t-2,n}$$

where:

- $n$  has the same meaning as in paragraph 6J.14 of this condition.
- $i$  indexes all individual projects which the licensee verifies and reports to the Authority has Delivered an IWW Output in Relevant Year  $t-2$  (where  $i = 1$  to  $N$ ).
- $j$  means boundary  $j$  as set out in Table 1 of this condition.
- $\sum_{\text{all } i} BTITC_{i,j,t-2}$  means the below baseline sum of incremental transfer capability Delivered by the licensee in Relevant Year  $t-2$  through all projects  $i$  on boundary  $j$ .
- Projects  $i$  on boundary  $j$  are treated as below the baseline if the cumulative total of all IWW Outputs Delivered on that boundary after 1 April 2013 is equal to or below the Incremental Transfer Capability Threshold for that boundary  $j$  set out in Table 2 of this condition.
- If a particular project  $i$  takes the cumulative total of all IWW Outputs on boundary  $j$  from below to above the Incremental Transfer



Capability Threshold for that boundary then only the part of Boundary Transfer Capability provided by project i up to the Threshold should be included in the below baseline sum of incremental transfer capability.

If more than one project is Delivered on boundary j in Relevant Year t-2 the projects are to be added to the cumulative total of all IWW Outputs delivered after 1 April 2013 so that the project with the unit cost that is closest to the below threshold unit cost allowance for boundary j set out in Table 2 is added to cumulative total first.

$BITC_{j,t-2}$

means the baseline incremental transfer capability at boundary j forecast for Relevant Year t-2 as set out in Table 1 of this condition.

$BTUCA_j$

meansthe unit cost allowance for BTITC on boundary j as defined in this paragraph 6J.15 and is set out in Table 2 of this condition.

$\sum_{all\ i} ATITC_{i,j,t-2}$

means the above baseline sum of incremental transfer capability, provided by all projects i (in whole or in part), on boundary j in Relevant Year t-2.

Projects i on boundary j are treated as above the baseline if the cumulative total of all IWW Outputs Delivered on that boundary after 1 April 2013 exceeds the Incremental Transfer Capability Threshold for boundary j set out in Table 2 of this condition.

If a particular project i takes the cumulative total of all IWW Outputs on boundary j after 1

April 2013 from below to above the Incremental Transfer Capability Threshold for that boundary then only then only the part of Boundary Transfer Capability provided by project i above the Threshold should be included in the above baseline sum of incremental transfer capability.

ATUCA<sub>i,j</sub>

means the unit cost allowance as set out in Table 2 of this condition for project i in ATITC as defined in this paragraph 6J.15.

RPE<sub>n</sub>

is defined in Part B of Special Condition 6F (Baseline Generation Connections Outputs and Generation Connections volume driver).

WFWW<sub>t-2,n</sub>

means the weighting factor for expenditure in year n for an IWW Output Delivered in Relevant Year t-2 as set out in Table 3 of this condition.

**Table 2: Boundary Unit Cost Allowances for IWW Outputs**

Boundary j	ITC Threshold (MW)	If cumulative IWW Output delivered on boundary after 1 April 2013 is less than Incremental Transfer Capability Threshold	If cumulative IWW Output Delivered on boundary is greater than ITC Threshold	
		BTUCA (£k/MW)	Unit Cost of option i (£k/MW)	ATUCA for option i (£k/MW)
1. B6	1000	81.4	All	90.3
2. B7	1400	62.4	All	61.8
3. B7a	400	51.6	All	76.3
4. B8	0	0.0	All	14.4

Boundary j	ITC Threshold (MW)	If cumulative IWW Output delivered on boundary after 1 April 2013 is less than Incremental Transfer Capability Threshold	If cumulative IWW Output Delivered on boundary is greater than ITC Threshold	
			BTUCA (£k/MW)	Unit Cost of option i (£k/MW)
5. B9	1000	9.7	All	57.0
6. B13	0	0.0	All	67.9
7. B14	800	106.3	All	34.7
8. B14e	2050	100.8	≤ 250	50.8
			> 250	290.1
9. NW1	2600	52.8	All	26.8
10. NW2	3100	51.8	All	44.0
11. NW3	1500	63.9	All	44.0
12. EC1	2900	88.0	All	88.0
13. EC3	1100	42.3	All	42.3
14. EC5	4200	69.9	≤ 125	36.5
			125 < x ≤ 400	149.2
			> 400	553.4
15. SC1	1000	97.4	All	112.2

**Table 3: Weighting factors for IWW Outputs**

<b>Relevant</b>	<b>Expenditure year n</b>
-----------------	---------------------------

t Year t-2	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
2014	1.00							
2015	0.79	0.21						
2016	0.42	0.37	0.21					
2017	0.16	0.26	0.37	0.21				
2018		0.16	0.26	0.37	0.21			
2019			0.16	0.26	0.37	0.21		
2020				0.16	0.26	0.37	0.21	
2021					0.16	0.26	0.37	0.21
2022						0.16	0.26	0.37
2023							0.16	0.26

6J.16 For the purposes the Principal Formula, the value of  $FIWW_{t,n}$  is to be calculated from the following such formula as is applicable:

(a) In Relevant Years  $t = 2016/17$  to  $2017/18$ :

$$FIWW_{t,n} = 0$$

(b) In Relevant Years  $t = 2018/19$  where forecasts for each year  $d$  are available (where  $d=2022$  to  $2023$  for year ending 31 March):

$$FIWW_{t,n} = \sum_{d=2022 \text{ to } 2023} [\sum_{j=1 \text{ to } 15} \{ (\sum_{\text{all } i} FBTITC_{i,j,d} \times BTUCA_j) + (\sum_{\text{all } i} FATITC_{i,j,d} \times ATUCA_{i,j}) \} \times RPE_n \times WFWW_{d,n} ]$$

(c) In Relevant Years  $t = 2019/20$  to  $2020/21$ :

$$FIWW_{t,n} = 0$$

where:

D means the Relevant Year in which the licensee forecasts it will Deliver the IWW Outputs.

N has the same meaning as given in paragraph 6J.14 of this condition.

I has the same meaning as given in paragraph 6J.15 of this condition.

J has the same meaning as given in paragraph 6J.15 of this condition.

FBTITC<sub>i,j,d</sub> means the forecast below baseline sum of incremental transfer capability Delivered by the licensee in Relevant Year d through all projects i on boundary j.

Projects i on boundary j are treated as below the baseline if the cumulative total of all IWW Outputs Delivered on that boundary after 1 April 2013 is equal to or below the Incremental Transfer Capability Threshold for that boundary j set out in Table 2 of this condition.

If project i is expected to take the forecast cumulative total of all IWW Outputs on boundary j from below to above the Incremental Transfer Capability Threshold for that boundary then only the part of Boundary Transfer Capability provided by project i up to the Threshold should be included in the below baseline sum of incremental transfer capability.

If more than one project is forecast to be Delivered on boundary j in Relevant Year d the projects are to be added to the forecast cumulative total of all IWW Outputs delivered after 1 April 2013 so that the project with the

unit cost that is closest to the below threshold unit cost allowance for boundary j set out in Table 2 is added to cumulative total first.

BTUCA<sub>i,j</sub>

means the unit cost allowance for FBTITC on boundary j as defined in this paragraph 6J.16 and is set out in Table 2 of this condition.

FATITC<sub>i,j,d</sub>

means the forecast above baseline sum of incremental transfer capability provided by project i (in whole or part) on boundary j in Relevant Year d.

Projects i on boundary j are to be treated as above the baseline if the forecast cumulative total of all IWW Outputs Delivered on that boundary after 1 April 2013 exceeds the Incremental Transfer Capability Threshold for boundary j set out in Table 2 of this condition.

If a particular project i is forecast to take the cumulative total of all IWW Outputs on boundary j after 1 April 2013 from below to above the Incremental Transfer Capability Threshold for that boundary then only then only the part of Boundary Transfer Capability forecast to be provided by project i above the Threshold should be included in the forecast above baseline sum of incremental transfer capability.

ATUCA<sub>i,j</sub>

means the unit cost allowance as set out in Table 2 of this condition for option i in FATITC as defined in this paragraph 6J.16.

WFWW<sub>d,n</sub>

has the same meaning as paragraph 6J.15 in this condition, except d replaces t-2.

#### **Part D: Determination of revisions to IWW values**

6J.17 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part E of this condition, specifying the revised IWW values for all years of the Price Control Period.

6J.18 The IWW values directed by the Authority will be deemed to be set out in the format of Table 4 in this condition showing the total amounts of Allowed Expenditure for IWW Outputs for each Relevant Year n of the Price Control Period after any modifications calculated in accordance with the formulae set out in Part C in this condition.

**Table 4: IWW values (£m, 2009/10 prices) after modifications in Part C**

Relevant Year n	Relevant Year t							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2014								
2015								
2016								
2017								
2018								
2019								
2020								
2021								
<b>Total</b>								

6J.19 The Authority may revise the IWW value for a Relevant Year notwithstanding that the IWW values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the IWW terms in respect of the earlier Relevant Years or to correct errors in relation to those values;
- (b) the revised IWW value is calculated in accordance with the formulae set out in Part C of this condition; and
- (c) the revised IWW value is specified in a direction issued in accordance with the provisions of Part E of this condition.

**Part E: Procedure to be followed for the direction of revised IWW values**

6J.20 A direction issued by the Authority under paragraph 6J.17 in 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 6J.17:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) stating, where appropriate, that any IWW values have been determined in accordance with Part C of this condition;
  - (iii) specifying the time (which must not be less than a period of 14 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.

6J.21 Where the Authority directs any revised IWW values under paragraph 6J.17 of this condition, the effect of using those revised IWW values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money adjustment, be reflected in the calculation of the term MOD for Relevant Year  $t$  and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6J.22 If, for any reason in any Relevant Year  $t-1$ , the Authority does not make a direction in relation to revised IWW values by 30 November, then no revised IWW values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that



same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised IWW values in respect of the next Annual Iteration Process.

## **Special Condition 6K. Allowed Expenditure for meeting planning requirements and volume driver**

### **Introduction**

6K.1 The purposes of this condition are:

- (a) to specify the basis of calculating adjustments to Allowed Expenditure for Underground Cabling in new transmission routes and DNO Mitigation works arising from planning requirements; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the DNO Mitigation and Underground Cabling Allowed Expenditure ('UCE' values) and the Relevant Years to which those revised UCE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6K.2 The 'UCE value' calculated in a particular Relevant Year t-1, is the amount of Allowed Expenditure (in 2009/10 prices) for each Relevant Year of the Price Control Period for DNO Mitigation and Underground Cabling works required as part of new transmission infrastructure as determined in accordance with this condition.

6K.3 This condition provides for:

- (a) the determination in Relevant Year t-1 of Allowed Expenditure required in each Relevant Year of the Price Control Period for amounts of DNO Mitigation works and Underground Cabling that is required or forecast to be required to fulfil conditions of planning consents for new transmission infrastructure;
- (b) the determination of and direction by the Authority of revised UCE values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue)

will result in an adjustment of the licensee’s Base Transmission Revenue in a manner that:

- (i) reflects approved changes to the allowed Underground Cabling and DNO Mitigation expenditure specified in this condition; and
- (ii) takes account of approved changes to the allowed Underground Cabling and DNO Mitigation expenditure specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

6K.4 This condition should be read and construed in conjunction with Special Condition 5B and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

**Part A: Allowed Expenditure for meeting planning requirements associated with new transmission infrastructure**

6K.5 Table 1 of this condition sets out the amount of Allowed Expenditure set at the start of the Price Control Period for Underground Cabling and DNO Mitigation that the licensee might be required to deliver to meet conditions or requirements under the Planning Act 2008, the Town and Country Planning Act 1990, the Act or any order or obligation pursuant thereto.

**Table 1: Allowed Expenditure for Underground Cabling and DNO Mitigation**

£m (2009/10 prices)	Relevant Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Underground Cabling	22.154	65.710	87.639	132.091	75.215	40.961	27.456	3.274
DNO Mitigation	11.154	8.777	4.534	1.426	0.000	0.000	0.000	0.000

6K.6 The figures set out in Table 1 in this condition have been reflected in:

- (a) 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); and
- (b) the UCE values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

**Part B: Calculation of the value of Allowed Expenditure for meeting planning requirements**

6K.7 The licensee must notify the Authority of the amount, if any, of Underground Cabling or DNO Mitigation works the licensee is required to deliver as part of a new transmission infrastructure project to meet the conditions or requirements referred to in paragraph 6K.5 of this condition.

6K.8 Upon completion of works covered by this condition, the licensee must report to the Authority on the actual volume of Underground Cabling and DNO Mitigation works delivered in each year.

6K.9 The value of  $UCE_{t,n}$  is to be derived for Relevant Year  $t = 2015/16$  and each subsequent Relevant Year from the following formula for each Relevant Year  $n$  (where  $n=2014$  to  $2021$  for Relevant Year ending 31 March):

$$UCE_{t,n} = \sum_{d=2017 \text{ to } 2024} [\sum_{\text{for all } x} [\sum_{m=1 \text{ to } 15} (FUGC_{x,m,d} + RUGC_{x,m,d}) \times CUCA_m] \times WUG_{n,d} \times RPE_n + DMA_d ]$$

where:

- N means the year for which the Allowed Expenditure is calculated.
- D means the year in which the circuit containing the underground cable section is commissioned.
- M means the underground cable type which is specified both by its construction and by its section length as set out in Table 2 in this condition.

X	means the number of sections of underground cable (i.e. $x = 0$ to N).
FUGC <sub>x,m,d</sub>	means the underground cabling section x of type m in circuit kilometres forecast to be required by the licensee, but not yet specified by the conditions or requirements referred to in paragraph 6K.5 in this condition.
RUGC <sub>x,m,d</sub>	means the actual underground cabling section x of type m in circuit kilometres specified by the conditions or requirements referred to in paragraph 6K.5 in this condition and that are Delivered in year d.
CUCA <sub>m</sub>	means the costs per section length for each underground cable type m as set out in Table 2 in this condition.
WUG <sub>n,d</sub>	means the weighting factor for expenditure in year n for Delivery in year d set out in Table 3 in this condition.
RPE <sub>n</sub>	has the same meaning as defined in Part B of Special Condition 6F (Baseline Generation Connection Outputs and Generation Connections volume driver) for Relevant Year n.
DMA <sub>d</sub>	means the DNO Mitigation Allowed Expenditure for DNO Mitigation Outputs delivered in year d and calculated in accordance with Part C of this condition.

6K.10 The section lengths of underground cabling for FUGC and RUGC shall be the measured central core lengths between cable sealing end compounds or cable entry bushings per circuit, and shall be rounded to the nearest 0.1km. If two or more sections of underground cabling are required in a circuit, these sections shall be treated as discrete lengths (x) when determining which underground cable type, m, to apply.

**Table 2: Unit cost allowances for Underground Cabling**

m	Underground cable type	x, section length in route km	CUCA <sub>m</sub> £m/circuit kilometre (2009/10 prices)
---	------------------------	-------------------------------	---

<b>m</b>	<b>Underground cable type</b>	<b>x, section length in route km</b>	<b>CUCAm £m/circuit kilometre (2009/10 prices)</b>
1	1 core per phase ≤ 2500mm <sup>2</sup>	x < 3	5.2
2		3 ≤ x < 15	4.1
3		x ≥ 15	3.9
4	1 core per phase >2500mm <sup>2</sup>	x < 3	5.5
5		3 ≤ x < 15	4.4
6		x ≥ 15	4.2
7	2 core per phase ≤ 2500mm <sup>2</sup>	x < 3	9.4
8		3 ≤ x < 15	7.8
9		x ≥ 15	7.6
10	2 core per phase > 2500mm <sup>2</sup>	x < 3	10.0
11		3 ≤ x < 15	8.4
12		x ≥ 15	8.2
13	3 cores per phase ≤2500mm <sup>2</sup>	x < 3	13.6
14		3 ≤ x < 15	11.5
15		x ≥ 15	11.3

**Table 3: Weighting factors for Underground Cabling**

<b>Delivery year d</b>	<b>Expenditure year n</b>							
	<b>2013/1 4</b>	<b>2014/1 5</b>	<b>2015/1 6</b>	<b>2016/1 7</b>	<b>2017/1 8</b>	<b>2018/1 9</b>	<b>2019/2 0</b>	<b>2020/2 1</b>
<b>2017</b>	0.2	0.5	0.2	0.1				
<b>2018</b>		0.2	0.5	0.2	0.1			

Delivery year d	Expenditure year n							
	2013/1	2014/1	2015/1	2016/1	2017/1	2018/1	2019/2	2020/2
	4	5	6	7	8	9	0	1
2019			0.2	0.5	0.2	0.1		
2020				0.2	0.5	0.2	0.1	
2021					0.2	0.5	0.2	0.1
2022						0.2	0.5	0.2
2023							0.2	0.5
2024								0.2

### Part C: Calculation of Allowed Expenditure for DNO Mitigation

6K.11 The non-profiled Allowed Expenditure for DNO Mitigation in Relevant Year d is to be derived from the following formula:

$$DMA_d = \sum_{g=1 \text{ to } 5} (FV_{g,d} + RV_{g,d}) \times DUCA_g \times RPE_d$$

where:

d is defined in Part B of this condition,

g means the type of mitigation works the licensee is required to deliver on the DNO network as set out in Table 4 in this condition.

$FV_{g,d}$  means the volume of DNO Mitigation type g forecast by the licensee to be required and delivered in year d, but not yet specified by the conditions or requirements referred to in paragraph 6K.5 in this condition.

$RV_{g,d}$  means the volume of DNO Mitigation type g specified by the conditions or requirements referred to in paragraph 6K.5 in this

condition and are delivered in year d.

DUCA<sub>g</sub> means the Unit Cost Allowance for DNO Mitigation type g as set out in the confidential document ‘Agreed Unit Cost Library for DNO Mitigations’ which is reproduced below as Table 4 in this condition in a redacted form.

RPE<sub>d</sub> has the same meaning as defined in Part B of Special Condition 6F for Relevant Year d.

**Table 4: Unit cost allowances for DNO Mitigation**

<b>g</b>	<b>DNO Mitigation works</b>	<b>Units</b>	<b>DUCA<sub>g</sub> £m/unit (2009/10 prices)</b>
1	DNO undergrounding	Circuit kilometre	1.1
2	DNO tower removal	Number of towers	REDACTED
3	New build Overhead line – single circuit	Circuit kilometre	0.7
4	New build Overhead line – double circuit	Circuit kilometre	0.8
5	New build DNO substation bays	Number of bays	REDACTED

**Part D: Determination of revisions to UCE values**

6K.12 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part E of this condition, specifying the revised UCE values for Relevant Years n.

6K.13 The directed UCE values will be deemed to be set out in the format of Table 5 in this condition showing the amounts of Allowed Expenditure for meeting planning



requirements after any modifications calculated in accordance with the formula set out in Parts B and C of this condition and the total of those amounts for each Relevant Year of the Price Control Period.

**Table 5: UCE values after modifications under Parts B and C for meeting planning requirements (£m 2009/10 prices)**

Relevant Year n	Calculated in Relevant Year t							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2014								
2015								
2016								
2017								
2018								
2019								
2020								
2021								
<b>Total</b>								

6K.14 The Authority may revise the UCE value for a Relevant Year notwithstanding that the UCE values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the term UCE for the earlier Relevant Years or to correct errors in relation to those values;
- (b) the revised UCE value for the earlier Relevant years is calculated in accordance with the formula set out in Part B in this condition, but

substituting  $RUGC_{m,d}$  with the actual length of Underground Cabling the licensee delivered in respect of type m;

- (c) the revised UCE value for the earlier Relevant Years is calculated in accordance with the formula set out in Part C in this condition, but substituting  $RV_{g,d}$  with the actual volume of DNO Mitigation the licensee delivered in respect of type g; and
- (d) the revised UCE value for the earlier Relevant Years is specified in a direction issued in accordance with the provisions of Part E of this condition.

#### **Part E: Procedure for direction of revised UCE values by the Authority**

6K.15 A direction issued by the Authority under paragraph 6K.12 in this condition is of no effect unless the Authority has first:

- (a) given notice to the licensee of all of the values that it proposes to issue a direction under paragraph 6K.12:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) stating that the revised UCE values have been determined in accordance with Parts B and C of this condition;
  - (iii) specifying the time (which must not be less than a period of 14 days) within which any 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.

6K.16 Where the Authority directs any revised UCE values under paragraph 6K.12 in Part D of this condition, the effect of using those revised UCE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6K.17 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised UCE values by 30 November, then no revised UCE values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1 and in those circumstances, the Authority will take full account of the position when determining and directing any revised UCE values in respect of the next Annual Iteration Process.

## Special Condition 6L. Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver

Note: Paragraph 6L.8(d) has been added to Part B: Allowed Expenditure for Demand Works to cover the post-separation period.

### Introduction

6L.1 The purposes of this condition are:

- (a) to specify the basis on which the licensee's levels of Allowed Expenditure on Demand Related Infrastructure Works ('Demand Works') on the licensee's Transmission System are to be derived; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the Demand Works Allowed Expenditure ('DRI' values) and the Relevant Years to which those revised DRI values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6L.2 The DRI values calculated in a particular Relevant Year  $t$  are the amount of Allowed Expenditure (in 2009/10 prices) in each Relevant Year of the Price Control Period for the licensee to deliver Demand Works as determined in accordance with the provisions of this condition. The DRI values as at 1 April 2013 are equal to the forecast amounts of baseline expenditure specified at the outset of the Price Control Period.

6L.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of the baseline Demand Works and the associated Allowed Expenditure;
- (b) the determination in Relevant Year  $t$  of the licensee's Allowed Expenditure in each year  $n$  for Demand Works the licensee delivers in year  $t-2$ ;

- (c) the determination of the licensee’s Allowed Expenditure for Demand Works the licensee forecast it will deliver in the first two years of the next price control period starting on 1 April 2021; and
- (d) the direction of revised DRI values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee’s Base Transmission Revenue in a manner that:
  - (i) reflects Allowed Expenditure amounts determined under Part C of this condition; and
  - (ii) takes account of Allowed Expenditure on Demand Works for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

6L.4 This condition should be read and construed in conjunction with, Special Condition 5B, and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

**Part A: Baseline Demand Related Infrastructure Works and Allowed Expenditure**

6L.5 Table 1 sets out the baseline forecast of the transformers and overhead line components of Demand Works, BQSGT and BDOHL respectively, for each Relevant Year in the Price Control Period and the total baseline expenditure (BDRl), in 2009/10 prices, associated with those Demand Works as at 1 April 2013.

**Table 1: Baseline Demand Works and Allowed Expenditure**

	Relevant Year
--	---------------

	2013/1 4	2014/1 5	2015/1 6	2016/1 7	2017/1 8	2018/1 9	2019/2 0	2020/2 1
<b>Super Grid Transformers BQSGT (number)</b>	4	6	8	9	17	8	10	10
<b>Overhead Line BDOHL (circuit km)</b>	7	0	0	3	6	0	11	0
<b>Allowed Expenditure (BDRI) (£m)</b>	47.784	36.187	32.388	32.828	50.590	41.373	12.474	0.933

6L.6 The figures set out in Table 1 in this condition have been reflected in:

- (a) the licensee's Opening Base Revenue Allowance, set against the licensee's name in Appendix 1 to Special Condition 3A; and
- (b) DRI values contained in the PCFM Variable Values Table for the Licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

6L.7 The licensee must report on the Demand Works it has delivered after 31 March 2013, and on the actual expenditure the licensee has incurred in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

**Part B: Allowed Expenditure for Demand Works**

6L.8 The value of DRI is to be determined for each Relevant Year n (where n=2014 to 2021 for Relevant Year ending 31 March) in accordance with the following such formula as is applicable:

- (a) For Relevant Years t = 2013/14 and 2014/15:

$$DRI_{t,n} = BDRIn$$

(b) In Relevant Year t = 2015/16:

$$DRI_{t,n} = BDRI_n + VDRI_{t,n} + (TPD_{t-2} - TPRD_{t-2})$$

(c) In Relevant Year t = 2016/17, 17/18 and 18/19 ~~and all following Relevant Years:~~

$$DRI_{t,n} = DRI_{t-1,n} + VDRI_{t,n} + (TPD_{t-2} - TPRD_{t-2}) + FDRI_{t,n}$$

**Drafting Change:** Paragraph 6L.8(d) has been added to cover the post-separation period.

(d) In Relevant Years t = 2019/20 and 2020/21:

$$DRI_{t,n} = DRI_{t-1,n} + VDRI_{t,n} + FDRI_{t,n}$$

where:

n	means the Relevant Year for which the Allowed Expenditure is calculated.
BDRI <sub>n</sub>	means the Baseline Demand Connections Expenditure in Relevant Year n as set out in Table 1.
VDRI <sub>t,n</sub>	means the Allowed Expenditure for Delivered Demand Works calculated in Relevant Year t for each Relevant Year n, determined in accordance with paragraph 6L.9 of this condition.
TPD <sub>t-2</sub>	means the total expenditure (in 2009-10 prices) efficiently incurred by the licensee in respect Demand Works where the users terminate the relevant bilateral agreements in Relevant Year t-2 prior to commencing use of the demand connection.
TPRD <sub>t-2</sub>	means an amount equal to the termination receipts received, in the form of revenues or

capital contributions, in respect of TPD<sub>t-2</sub> in Relevant Year t-2.

FDR<sub>t,n</sub>

means Allowed Expenditure for the licensee's forecast of Demand Works to be Delivered in the next price control period starting 1 April 2021, calculated in accordance with paragraph 6L.10 of this condition.

6L.9 The value of VDR<sub>t,n</sub> is to be determined for Relevant Year t = 2015/16 and each subsequent Relevant Year in accordance with the following formula for each Relevant Year n (where n=2014 to 2021 for Relevant Year ending 31 March) where information is available for Relevant Year t-2:

$$VDR_{t,n} = [(AQSGT_{t-2} - BQSGT_{t-2}) \times \text{£}3.9\text{million}] + \{(ADOHL_{t-2} - BDOHL_{t-2}) \times \text{£}1.1\text{million}\} + \{\sum_{\text{for all } x} \sum_{m=1 \text{ to } 15} (ADCBL_{x,m,d} \times COUCA_m)\} \times RPE_n \times WFD_{t-2,n}$$

where:

n

has the same meaning given in 6L.8 of this condition.

m

means the underground cable type which is specified both by its construction and by its section length as set out in Table 2 in Part B of Special Condition 6F. (Baseline Generation Connections Outputs and Generation Connections volume driver).

x

means the number of sections of underground cable Delivered (i.e. x = 0 to N).

AQSGT<sub>t-2</sub>

means the actual number of supergrid transformers Delivered as part of Demand Works in Relevant Year t-2.

BQSGT<sub>t-2</sub>

means the baseline number of super grid transformers for Relevant Year t-2 as set out in Table 1 in this condition.



ADOHL <sub>t-2</sub>	means the actual length of overhead line in circuit kilometres commissioned as part of the Demand Works Delivered in Relevant Year t-2.
BDOHL <sub>t-2</sub>	means the baseline length of overhead line in circuit kilometres in Relevant Year t-2 as set out in Table 1 in this condition.
ADCBL <sub>x,m,t-2</sub>	means the actual underground cabling section x of type m in circuit kilometres commissioned as part of the Demand Works Delivered in Relevant Year t-2.
COUCA <sub>m</sub>	is defined in Part B of Special Condition 6F. (Baseline Generation Connections Outputs and Generation Connections volume driver).
RPE <sub>n</sub>	is defined in Part B of Special Condition 6F. (Baseline Generation Connections Outputs and Generation Connections volume driver).
WFD <sub>t-2,n</sub>	means the weighting factor for expenditure in year n for Delivery year t-2 set out in Table 2 in this condition.

**Table 2: Weighting factors for Demand Works**

Relevant Year t	Expenditure year n							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
2014	1.00							
2015	0.89	0.11						
2016	0.45	0.44	0.11					
2017		0.45	0.44	0.11				
2018			0.45	0.44	0.11			

Relevant Year t	Expenditure year n							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
2019				0.45	0.44	0.11		
2020					0.45	0.44	0.11	
2021						0.45	0.44	0.11
2022							0.45	0.44
2023								0.45

6L.10 The value of  $FDRI_{t,n}$  is to be calculated from the following such formula as is applicable:

(a) In Relevant Years  $t = 2016/17$  to  $2017/18$ :

$$FDRI_{t,n} = 0$$

(b) In Relevant Year  $t = 2018/19$  where forecasts are available for year  $d$  (where  $d = 2022$  and  $2023$  for year ending 31 March):

$$FDRI_{t,n} = \sum_{d=2022 \text{ to } 2023} [SGTF_d \times \text{£}3.9\text{million} + FDOHL_d \times \text{£}1.1\text{million} + \sum_{\text{for all } x} \sum_{m=1 \text{ to } 15} (FDCBL_{x,m,d} \times COUCA_m)] \times RPE_n \times WFD_{d,n}$$

(c) In Relevant Years  $t = 2019/20$  to  $2020/21$ :

$$FDRI_{t,n} = 0$$

where:

$d$  means the Relevant Year in which the licensee forecasts it will Deliver the completed Demand Works.

$SGTF_d$  Means the number of new supergrid transformers that the licensee forecasts it will Deliver in year  $d$  to fulfil a Relevant User Connection Agreement or Relevant User Agreement to Vary as defined in the CUSC.

FDOHL <sub>d</sub>	means the length of overhead line in circuit kilometres the licensee forecasts to be required as part of Delivering customers' demand connections agreements in year d.
m	has the same meaning as given in paragraph 6L.9 of this condition.
x	has the same meaning as given in paragraph 6L.9 of this condition.
FDCBL <sub>x,m,d</sub>	means the underground cabling section x of type m in circuit kilometres of commissioned as part the licensee forecasts to be required as part of Delivering customers' demand connections agreements in year d.
COUCA <sub>m</sub>	is defined in Part B of Special Condition 6F.
RPE <sub>n</sub>	is defined in Part B of Special Condition 6F.
WFD <sub>d,n</sub>	has the same meaning as paragraph 6L.9 in this condition, except d replaces Relevant Year t-2.

### **Part C: Determination of revisions to DRI values**

6L.11 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part D of this condition, specifying the revised DRI values for all years of the Price Control Period.

6L.12 The DRI values directed by the Authority will be deemed to be set out in the format of Table 3 in this condition showing the total amounts of Allowed Expenditure for Generation Connections for each Relevant Year n of the Price Control Period after any modifications calculated in accordance with the formulae set out in Part B in this condition.

**Table 3: DRI values (£m, 2009/10 prices) after modifications in Part B**

Relevant Year n	Relevant Year t							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2014								
2015								
2016								
2017								
2018								
2019								
2020								
2021								

6L.13 The Authority may revise the DRI value for a Relevant Year notwithstanding that the DRI values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the VDRI, TPD, TPRD and/or FDRI terms in respect of the earlier Relevant Years or to correct errors in relation to those values;
- (b) the revised DRI value is calculated in accordance with the formula set out in Part B of this condition; and
- (c) the revised DRI value is specified in a direction issued in accordance with the provisions of Part D of this condition.

**Part D: Procedure to be followed for the direction of revised DRI values**

6L.14 A direction issued by the Authority under paragraph 6L.11 in 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 6L.11:

- (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) stating, where appropriate, that any DRI values have been determined in accordance with Part B of this condition;
  - (iii) specifying the time (which must not be less than a period of 14 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.

6L.15 Where the Authority directs any revised DRI values for 'earlier Relevant Years' under paragraph 6L.11 of this condition, the effect of using those revised DRI values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6L.16 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised DRI values by 30 November, then no revised DRI values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised DRI values in respect of the next Annual Iteration Process.

**Chapter 7: Annual Iteration Process - Adjustments to the System Operator  
Revenue (Not Used)**

**Note:** Chapter 7 contains obligations for the SO and so will not be in effect in the  
NGET licence.

## Chapter 8: Other Revenue Restriction Related Conditions

### Special Condition 8A. Disapplication of Relevant Special Conditions

**Drafting Change:** We have removed the specific reference to 'Relevant SO Special Conditions' and 'Relevant TO Special Conditions', and replaced this with '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 disappplied 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

**Drafting Change:** Replaced reference to 'Maximum Revenue' with 'Allowed Transmission Owner Revenue'. We have removed 8B.8(b) and 8B.8(c) as these relate to SO activities.

### 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 Allowed Transmission Owner 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); and
- ~~(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 AA5A (Balancing Services Activity Revenue Restriction); and~~
- (~~eb~~) 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:

**Drafting Change:** Outage Changes and NIC payments made by NGESO have been added to this list.

- ES1. Connection services: This category consists of the carrying out of works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain electric lines, electrical plant, or meters necessary to provide any new connection or modify any existing connection to the licensee's Transmission System, (but only to the extent

that the service is not already remunerated under one of the charges set out at paragraph 8B.8 of this condition).

- 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. Outage Changes: The net costs reasonably incurred by the licensee as a result of any outage change as reimbursed by the System Operator. For the purpose of this condition an "outage change" is a change to the outage plan notified to the licensee by the System Operator on or after week 49, as updated from time to time in accordance with the procedures set out in the STC.
- ES6. NIC payments made by the System Operator to the licensee in respect of NIC funding in accordance with Special Condition 3I (The Network Innovation Competition).
- ES7. 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~~ Basis of transmission owner charges**

**Drafting Change:** We are minded to include Special Condition 8C in NGET's licence, to align with the Scottish TO licences.

1. The licensee shall as soon as practicable after this licence has come into force and, in any event, not later than such date as the Authority shall specify prepare a statement in a form approved by the Authority setting out the basis upon which charges will be made

(a) for transmission owner services;

(b) for connection to the licensee's transmission system,

such statement to be in such form and to contain such detail as shall be necessary to enable the system operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services, and (without prejudice to the foregoing) including the information set out in paragraph 2 as is required by such paragraph to be included in the relevant statement; and

(c) for outage changes.

2. The statement referred to in paragraph 1 shall in respect of connections to the licensee's transmission system include:

(a) a schedule listing those items (including the carrying out of works and the provision and installation of electric lines or electrical plant or meters) of significant cost liable to be required for the purpose of connection (at entry or exit points) to the licensee's transmission system for which site specific charges may be made or levied and including (where practicable) indicative charges for each such item and (in other cases) an explanation of the methods by which and the principles on which such charges will be calculated;

(b) the methods by which and the principles on which site specific charges will be made in circumstances where the electric lines or electrical plant to be installed are (at the licensee's discretion) of greater size or capacity than that required;

(c) the methods by which and the principles on which any charges (including any capitalised charge) will be made for maintenance, replacement and repair required of electric lines, electrical plant or meters provided and installed for making a connection to the licensee's transmission system;

(d) the methods by which and the principles on which any charges will be made for disconnection from the licensee's transmission system and the removal of electrical plant, electric lines and ancillary meters following disconnection; and

(e) such other matters as shall be specified in directions issued by the Authority from time to time for the purpose of this condition.

3. Site specific charges for those items referred to in paragraph 2 shall be set at a level which will enable the licensee to recover:

(a) the appropriate proportion of the costs directly or indirectly incurred in carrying out any works, the extension or reinforcement of the licensee's transmission system or the provision and installation, maintenance, replacement and repair or (as the case may be) removal following disconnection of any electric lines, electrical plant, meters or other items; and

(b) a reasonable rate of return on the capital represented by such costs.

4. In addition to, and without prejudice to, the licensee's obligations under paragraph 1, the licensee shall, upon being directed to do so in directions issued by the Authority from time to time for the purposes of this condition and within such period as shall be specified in the directions, prepare a statement or statements in a form approved by the Authority providing that charges

(a) for transmission owner services;

(b) for connection to the licensee's transmission system; and

(c) for outage changes

will be made on such basis as shall be specified in the directions and such statement or statements shall be in such form and contain such detail as shall be necessary to enable the system operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services and (without prejudice to the foregoing) including such information as shall be specified in the directions. Each statement prepared in accordance with this paragraph shall replace the corresponding statement prepared by the licensee in accordance with paragraph 1 or, as the case may be, this paragraph (as from time to time revised in accordance with paragraph 5) which is in force at such date and the licensee shall, with effect from such date make charges in accordance with the statement (as from time to time revised in accordance with paragraph 5) which has replaced such corresponding statement.

5. The licensee may periodically revise the statements in accordance with paragraphs 1 and 4 and shall, at least once in every year this license is in force, make any necessary revisions to such statements in order that the information set out in the statements shall continue to be accurate in all material respects.

6. Any revision to the form of the statement shall require to be approved by the Authority and shall not become effective until approved by the Authority.

7. The licensee shall give or send a copy of the statements prepared in accordance with paragraphs 1 and 4 or (as the case may be) of the latest revision of such statements in accordance with paragraph 5 in a form approved by the Authority pursuant to such paragraph to any person who requests a copy of such statement or statements.



8. The licensee may make a charge for any statement given or sent pursuant to paragraph 7 of an amount reflecting the licensee's reasonable costs of providing such a statement which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition.