

Schedule 1B - Reasons and effects of proposed insertion of new special conditions into the electricity interconnector licence held by National Grid IFA2 Limited (NGIFA2)

Special Condition 1: Definitions and Interpretation

The reason for this condition is to set out defined words and expressions that are used in the special conditions and gives their meaning, including the general rules of interpretation of provisions within the licence.

The effect of making this change is to improve the clarity of the special conditions by housing all common definitions that are used in multiple special conditions within a single licence condition.

Special Condition 2: Cap Level and Floor Level

The reason for this condition is to set out how NGIFA2's cap and floor levels are calculated. It also sets out the calculation of the values of the different adjustment components that feed into the calculation of the cap and floor levels.

The effect of this condition is to specify how the cap and floor levels are derived and how the values of the different adjustment components are calculated. It also, where appropriate, sets out the relevant processes to be followed.

Special Condition 3: Cap and Floor Assessment

The reason for this special condition is to set out the process for:

- (a) assessing NGIFA2's revenue against the cap and floor level (calculated in accordance with its licence) for each assessment period; and
- (b) determining the value of any revenue adjustment component that may be required at the end of each assessment period as a consequence of a breach of the cap or floor levels.

This condition also sets out how the various components used in the calculations to determine the value of any revenue adjustment component, due at the end of an assessment period, are calculated.

The effect of this condition is to specify the process by which NGIFA2's revenue is assessed against the cap and floor level in each assessment period. It also provides clarity on how the value of any end of period payment is determined, and how the values of the various adjustment components that feed into it are calculated.

Special Condition 4: Interconnector Availability Incentive

The reason for this condition provides for adjustments to the cap and floor levels depending on technical performance of the interconnector. The condition also places obligations on NGIFA2 in the event of an interconnector outage.

The effect of this condition is to ensure the Authority is sufficiently informed of any outage events occurring on the interconnector, provide for an up to 2% increase or reduction in the cap level where performance exceeds or falls short of the specified availability target, and make eligibility for floor payments conditional on achieving a minimum level of availability of 80%.

Special Condition 5: Assessed Revenue

This condition calculates NGIFA2's assessed revenue for the purposes of determining the amount of revenue it has earned in a relevant assessment period against the cap and floor levels calculated.

The reason for this condition is to set out the calculations for the assessed revenue term.

The effect of this condition is to derive the value of NGIFA2's assessed revenue for the purpose of comparing it against the cap and floor levels.

Special Condition 6: Within Period Adjustment

The reason for this condition is to set out the grounds on which NGIFA2 may submit a request for a revenue adjustment within a relevant assessment period. It also sets out the process that NGIFA2 must follow if and when it requests a within period adjustment. This condition includes the process for determining the value of any within period adjustments.

The effect of this condition is to provide for adjustments to NGIFA2's interconnector revenue outside of the five-yearly assessment periods where the requested adjustment meets the requirements specified in this condition.

Special Condition 7: Non-Controllable Costs

The reasons for this condition are to set out relevant calculations for adjustments to NGIFA2's interconnector revenue as a result of changes in its non-controllable operational costs. It also sets out calculations and relevant processes for the determination of costs relating to decommissioning and income adjusting events.

The effect of this condition is to provide for certain non-controllable operational costs to be passed through to consumers. It also provides for adjustments, where determined by the Authority, to NGIFA2's assessed revenue in the event of an income adjusting event; and to the cap and floor levels in the event of changes in legislative requirements related to decommissioning.

Special Condition 8: Process for determining the value of the Post Construction Adjustment terms

The reason for this condition is to establish the process for determining the value of the Post Construction Adjustment terms. That is any adjustment (whether upwards or downwards) to NGIFA2's cap and floor levels as a consequence of the difference between the Authority's:

- (a) estimate, assumed in the preliminary cap floor levels, of the economic and efficient costs associated with developing, constructing, operating, maintaining and decommissioning of the interconnector; and
- (b) assessment, at the Post Construction Review stage, of the economic and efficient costs associated with developing, constructing, operating, maintaining and decommissioning of the interconnector.

The effect of this condition is to account for the difference between the preliminary cap and floor levels set by the Authority at the FPA stage and the actual cap and floor levels, following the Authority's assessment at the Post Construction Review stage.

Special Condition 9: Process for determining the value of the Opex Reassessment Adjustment term

The reason for this condition is to establish the process for determining the value of the Opex Reassessment Adjustment terms. These terms provide for a one-off adjustment (whether upwards or downwards) to the cap and floor levels not less than 10 years after the start of NGIFA2's cap and floor regime.

The effect of this condition is to account for the difference between the Authority's:

- (a) assessment at the post construction review stage of costs associated with operating the licensee's interconnector; and
- (b) reassessment, at the Opex Reassessment stage, of the economic and efficient costs associated with operating the interconnector.

Special Condition 10: Calculation of adjustments to the licensee's Interconnector Revenue

The reason for this condition is to calculate the value of the Interconnector Cap and Floor Revenue Adjustment terms for each assessment period and partial assessment period. These terms provide for an adjustment (whether upwards or downwards) of NGIFA2's interconnector revenue as a consequence of the factors specified in the licence, including:

- the assessment of NGIFA2's assessed revenue against the cap and floor levels; and
- the determination by the Authority of any Within Period Adjustment or Pass Through Adjustment.

This condition also provides for NGIFA2 to submit a proposed value for a true up term, for the Authority's approval, calculated to reconcile any forecasting or reporting errors from previous years.

The overall effect of this condition is to derive the total value of any upwards or downwards adjustment of NGIFA2's revenue (ie payment from/to consumers via Transmission Network Use of System charges).

Special Condition 11: IFA2 Cap and Floor Financial Model (IFA2CFFM) Governance

This condition explains the status of the IFA2 Cap and Floor Financial Model (the "IFA2CFFM") and conditions under which it can be modified.

The reason for this condition is to clarify that the IFA2CFFM will be maintained by the Authority and used by the Authority to facilitate adjustments to the cap level and floor level and to assess revenue earned by IFA2 against the cap level and floor level.

The effect of this condition is to provide governance and amendment provisions for the IFA2CFFM.