

**To: Gwynt y Mor OFTO plc**

**Electricity Act 1989  
Section 11A(2)**

**Modification of the amended standard conditions of the offshore electricity  
transmission licence held by Gwynt y Mor OFTO plc**

1. Gwynt y Mor OFTO plc is the holder of an offshore electricity transmission licence ('the Licence') which has been granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> gave notice on 25 August 2020 ('the Notice') that we proposed to modify the following amended standard conditions ('ASC') of the Licence:
  - a. ASC E12-J1: Restriction of Transmission Revenue: Definitions;
  - b. ASC E12-J3: Restriction of Transmission Revenue: Allowed Pass-through Items;
  - c. ASC E12-J9: Basis of Transmission Owner Charges; and
  - d. Condition E13: System Operator – Transmission Owner Code

and modify the licence by adding:

- e. ASC E12-J11: The Network Innovation Competition
3. We stated that any representations to the modification proposal must be made on or before 24 September 2020.
4. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the changes should not be made.
5. In total, the Authority issued seven notices proposing similar modifications to all existing offshore transmission ('OFTO') Licences (including that held by Gwynt y Mor OFTO plc) on 25 August 2020. We received 11 responses to the notices, which we have carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in the accompanying Decision Letter.
6. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the accompanying Schedule 1. The reasons for the differences between the modifications set out in the Notice and the modifications reflected in Schedule 1 are to address minor issues raised in consultation responses, including the placement of the definition of 'Uninsurable', and to ensure consistency in the Licence drafting. These differences are addressed in further detail in the Decision Letter and do not change the reason for, or effect of, the modifications as set out in the Notice.
7. We are making these Licence modifications for the reasons set out in the Notice, and the effect of the modifications will be as described in the Notice.

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<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority ('CMA') under section 11C of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules<sup>2</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the amended standard licence conditions for the offshore electricity transmission Licence held by Gwynt y Mor OFTO plc in the manner specified in the attached Schedule 1. This decision will take effect from 14 January 2021.

This document with the accompanying Decision Letter is notice of the reasons for the decision to modify the offshore electricity transmission licence held by Gwynt y Mor OFTO plc as required by section 49A(2) of the Act.

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**Jourdan Edwards**  
**Head of the OFTO Regime, Networks**

**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**17 November 2020**

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<sup>2</sup> CMA70 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655601/energy-licence-modification-appeals-rules.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf)

## **Schedule 1: Licence Modification**

We have included the sections of the amended standard licence conditions we have decided to remove or amend below. Deletions are shown in strike through and new text is double underlined.

### **Amended Standard Condition E12–J1: Restriction of Transmission Revenue: Definitions**

*Insert the following definitions in amended standard condition E12-J1:*

*A. after the definition of "exceptional event" and before the definition of "incentive period y":*

‘ "Force Majeure"                      means any event or circumstance which is beyond the reasonable control of the licensee including act of God, strike, lockout or other industrial disturbance, act of the public enemy, war declared or undeclared, threat of war, terrorist act, blockade, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, lightning, fire, storm, flood, earthquake, accumulation of snow or ice, lack of water arising from weather or environmental problems, explosion, governmental restraint, Act of Parliament, other legislation, bye law and Directive (not being any order, regulation or direction under sections 32, 33, 34 and 35 of the Act) and provided, for the avoidance of doubt, that weather conditions which are reasonably to be expected at the location of the event or circumstance are also excluded as not being beyond the reasonable control of the licensee.’

*and*

*B. after the definition of "transmission service reduction" and before the definition of "unit":*

‘ "Uninsurable"                      means that the Authority determines either that:

(a) Insurance is not available to the licensee in respect of all or part of its Transmission Assets in the Worldwide Offshore Transmission Asset Insurance Market with reputable insurers of good standing in respect of a Risk;  
or

(b) the Insurance premium payable for insuring that Risk is at such a level that the Risk is deemed as not being insurable in the Worldwide Offshore Transmission Asset Insurance Market with reputable insurers of good standing.

Where:

(c) a "Risk" means the physical loss or damage requiring replacement or rectification of Transmission Assets,

which is caused by a Latent Defect resulting from material workmanship design plan or specification;

(d) "Insurance" means the indemnity which would normally be covered by an Operational All Risk insurance policy with a LEG 3/06 exclusion, or equivalent, which includes indemnity for the full cost of replacement or rectification of the Offshore Transmission Assets (but not improvement) rendered necessary by damage which is the consequence of a Latent Defect;

(e) a "Latent Defect" means a flaw in Offshore Transmission Assets, which:

i. is an actual defect in material workmanship design plan or specification, not the damage resulting from the defect; and

ii. existed but which would not have been apparent to an efficient licensee in the position of the licensee at the time the Offshore Transmission Assets were transferred to it;

(f) "LEG 3/06" means the London Engineering Group Unique Market Reference for the Model "Improvement" Defects Wording;

(g) "Worldwide Offshore Transmission Asset Insurance Market" means all insurers who, after an exhaustive search, would reasonably be understood by an efficient licensee, in the position of the licensee, to be participating in the business of insuring offshore transmission assets (to be determined by the Authority); and

(h) "Offshore Transmission Asset/s" means the transmission system to which the licensee's Offshore Transmission Owner Licence relates as set out in Annex B to amended standard condition E12-B1 (Transmission System Area) in the licensee's Offshore Transmission Owner Licence.

**Amended Standard Condition E12–J3: Restriction of Transmission Revenue: Allowed Pass-through Items**

1. The purpose of this condition is to provide for revenue adjustments to reflect certain costs that can be passed through to consumers as part of allowed transmission owner revenue.
2. For the purposes of paragraph 4 of amended standard condition E12–J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services)  $PT_t$  is derived from the following formula:

$$PT_t = LF_t + RB_t + CEL_t + DC_t + IAT_t + TPD_t + TCA_t + MCA_t \quad (9)$$

where:

- $LF_t$  means the licence fee cost adjustment term, whether of a positive or of a negative value, and shall be determined in accordance with paragraph 3.
- $RB_t$  means the network rates cost adjustment term, whether of a positive or of a negative value, and shall be determined in accordance with paragraphs 4 and 5.
- $CEL_t$  means the Crown Estate Lease cost adjustment term, whether of a positive or negative value, and shall be determined in accordance with paragraph 6.
- $DC_t$  means the decommissioning cost adjustment term and shall be determined in accordance with paragraphs 7 to 13.
- $IAT_t$  means the income adjusting event revenue adjustment term, whether of a positive or of a negative value, and shall be determined in accordance with paragraphs 14 to 24.
- $TPD_t$  means the temporary physical disconnection payment term and shall be determined in accordance with paragraph 25.
- $TCA_t$  means the tender fee cost adjustment term and shall be determined in accordance with paragraph 26.
- $MCA_t$  means the Marine and Coastal Access Act 2009 cost adjustment term and shall be determined in accordance with paragraphs 27 to 33.

**Formula for the Licence Fee Cost Adjustment ( $LF_t$ )**

3. For the purposes of paragraph 2,  $LF_t$  is an amount in respect of licence fee payments and means the amount equal to the payments made by the licensee, in the relevant year  $t$ , in accordance with its obligations set out in standard condition A4 (Payments to the Authority).

**Formula for the Network Rates Cost Adjustment ( $RB_t$ )**

4. For the purposes of paragraph 2,  $RB_t$  is an amount in respect of networks rates payments and means, subject to paragraph 5 of this condition, the amount equal to the rates payments made by the licensee in the relevant year  $t$ .
5. The licensee shall at the time of network rates revaluation use reasonable endeavours to minimise the costs that it will incur in respect of network rates.

**Formula for the Crown Estate Lease Cost Adjustment ( $CEL_t$ )**

6. For the purposes of paragraph 2,  $CEL_t$  is an amount equal to the payments made by the

licensee to the Crown Estate, in the relevant year  $t$ , in accordance with its obligations set out in its Crown Estate Lease in respect of the:

- (a) annual rent of the seabed; and
- (b) legal expenses of the Crown Estate for the preparation, negotiation and completion of the Crown Estate Lease.

**Formula for the Decommissioning Cost Adjustment ( $DC_t$ )**

- 7. Where the licensee considers, and can provide supporting evidence, that there will be additional costs and/or expenses in relation to the licensee's obligations with respect to decommissioning of the transmission system that has arisen due to a change in legislative requirements, then the licensee shall give written notice of this change to the Authority.
- 8. A notice provided to the Authority under paragraph 7 shall give particulars of:
  - (a) the change in legislative requirements to which the notice relates and the reason(s) why the licensee considers that it will face additional costs or expenses in complying with those obligations, and demonstrate that such costs and expenses are not included within the allowed transmission owner income;
  - (b) the expected amount of any change in costs and/or expenses that can be demonstrated by the licensee to be caused by the change in decommissioning requirements and how the amount of these costs and/or expenses has been calculated;
  - (c) the proposed amount of any allowed revenue adjustment proposed as a consequence of the change in decommissioning requirements and how this allowed revenue adjustment has been calculated; and
  - (d) any other analysis or information, which the licensee considers sufficient to enable the Authority to fully assess the change in legislative requirements to which the notice relates.
- 9. If the Authority considers that the analysis or information provided in sub-paragraphs 8(a) to 8(d) above is insufficient to enable the Authority to assess whether a change in decommissioning requirements has occurred and/or the amount of any allowed income adjustment that might be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate. If the Authority requests that the supporting evidence be supplemented with additional information, the licensee shall provide such information to the Authority within not more than one month of the Authority requesting such information.
- 10. A notice referred to in paragraph 7 shall be given as soon as is reasonably practicable after the occurrence of the change in requirements, and, in any event, not later than three months after the end of the relevant year in which it occurs.
- 11. The Authority shall determine:
  - (a) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 7 were caused by the change in legislative requirements;
  - (b) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that change in legislative decommissioning requirements

had not taken place, and if not, what allowed income adjustment would secure that effect; and

(c) the periods, if any, over which the amounts should apply.

12. In relation to the relevant year  $t$ , the decommissioning cost adjustment term ( $DC_t$ ) shall be:

(a) the value determined by the Authority under paragraph 11 above; or

(b) if the Authority has not requested additional information under paragraph 9 and the Authority has not made a determination under paragraph 11 above within three months of the date on which notice given by the licensee was provided to the Authority, the amount of the allowed income adjustment proposed by the licensee in that notice given to the Authority; or

(c) if the Authority requests additional information under paragraph 9 and the Authority has not made a determination under paragraph 11 above within three months after receiving the additional information requested, the amount of the allowed income adjustment proposed by the licensee in the notice given to the Authority; or

(d) in all other cases the value zero, including situations where the Authority has not made a determination under paragraph 11 above within three months of the date on which notice given by the licensee provided to the Authority, or within three months of the date on which the Authority received additional information if requested under paragraph 9, and the Authority has, before the end of the appropriate three month period, informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 8 and/or 9 is insufficient to enable the Authority to assess whether additional costs or expenses have occurred and/or the amount of any allowed income adjustment.

13. The Authority's decision in relation to any notice given under paragraph 7 shall be in writing, shall be copied to the licensee and shall be in the public domain.

**Formula for the Income Adjusting Event Revenue Adjustment ( $IAT_t$ )**

14. Where the licensee considers, and can provide supporting evidence that, in respect of relevant year  $t$ , there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give written notice of this event to the Authority.

15. An income adjusting event in relevant year  $t$  may arise from any of the following:

(a) an event or circumstance constituting ~~f~~Force ~~m~~Majeure ~~under the STC~~;

(b) an event or circumstance resulting from an amendment to the STC not allowed for when allowed transmission owner revenues of the licensee were determined for the relevant year  $t$ ; and

(c) an event or circumstance other than listed above which, in the opinion of the Authority, is an income adjusting event and is approved by it as such in accordance with paragraph 21 of this licence condition,

where the event or circumstance has, for relevant year  $t$ , increased or decreased costs and/or expenses by more than £1,000,000 (the "~~STC~~ threshold amount").

16. A notice provided to the Authority under paragraph 14 shall give particulars of:

- (a) the event or circumstance to which the notice relates and the reason(s) why the licensee considers this event or circumstance to be an income adjusting event;
  - (b) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event or circumstance and how the amount of these costs and/or expenses has been calculated, including the extent to which the licensee has claimed or intends to claim under other routes of recourse for any costs and/or expenses arising out of or relating to the event or circumstance;
  - (c) the amount of any allowed income adjustment proposed as a consequence of that event or circumstance and how this allowed income adjustment has been calculated; and
  - (d) any other analysis or information, which the licensee considers sufficient to enable the Authority and the relevant parties to fully assess the event or circumstance to which the notice relates.
17. If the Authority considers that the analysis or information provided in sub-paragraphs 16(a) to 16 (d) (inclusive) above is insufficient to enable both the Authority and the relevant parties to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can make a request or requests that the supporting evidence be supplemented with additional information that it considers appropriate. If the Authority requests that the supporting evidence be supplemented with additional information, the licensee shall provide such information to the Authority within **not more than** one month of the Authority requesting such information or within such extended time as permitted by the Authority.
18. A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and, in any event, not later than three months after the end of the relevant year in which it occurs.
19. The Authority will make public, excluding any confidential information, any notice of an income adjusting event as soon as is reasonably practicable following its receipt.
20. Any notice submitted to the Authority under paragraph 14 above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:
- (a) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
  - (b) the extent to which the disclosure of the information mentioned in sub-paragraph 20(a) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.
21. The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):
- (a) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 14 were caused or saved by an income adjusting event;

(b) whether the event or circumstance has increased or decreased the costs and/or expenses given in the notice pursuant to paragraph 14 by more than the ~~STC~~ threshold amount; and

(c) if so:-

- i. subject to sub-paragraph (iii), whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect; and. Such adjustment shall be:
  - a. where the income adjusting event relates to an Uninsurable event or circumstance, reduced by:
    - i. if the licence was granted on or before 28 November 2018, the amount of the insurance deductible set out in the invitation to tender questionnaire submitted in respect of this licence pursuant to the tender regulations ; or
    - ii. if the licence was granted after 28 November 2018, either £5 million or the insurance deductible set out in the invitation to tender questionnaire submitted in respect of this licence pursuant to the tender regulations, whichever is greater; and
  - b. for the avoidance of doubt, reduced by costs and/or expenses caused by the income adjusting event that are recovered by other routes of recourse available to the licensee, including, but not limited to, commercial arrangements;

unless, and to the extent that, the Authority has already applied such reductions to a previous income adjustment related to the same event or circumstance as that set out in the notice pursuant to paragraph 14;
- ii. (d) subject to sub-paragraph (iii), the periods, if any, over which the amounts should apply; and
- iii. where it is not yet possible to make a final determination under sub-paragraphs (c)(i) and (c)(ii) above, the Authority may direct a partial amount of income adjustment, if any, pending the final determination of amount, such final determination to be made as soon as is reasonably practicable.

22. In relation to the relevant year t, the allowed income adjustment (IAT<sub>t</sub>) shall be:

- (a) the value, or relevant proportion of the value, determined by the Authority under paragraph 21 above; or
- (b) if the Authority has not requested additional information under paragraph 17 and the Authority has not made a determination under paragraph 21 above within three months (excluding the duration of any consultation under paragraph 21) of the date on which notice of an income adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the

notice given to the Authority under paragraph 14; or

- (c) if the Authority requests additional information under paragraph 17 and the Authority has not made a determination under paragraph 21 above within three months (excluding the duration of any consultation under paragraph 21) after receiving the additional information requested, the amount of the allowed income adjustment proposed by the licensee in the notice given to the Authority; or
  - (d) in all other cases the value zero, including situations where the Authority has not made a determination under paragraph 21 above within three months (excluding the duration of any consultation under paragraph 21) of an income adjusting event, provided under paragraph 14, was provided to the Authority, or within three months (excluding the duration of any consultation under paragraph 21) of the date on which the Authority received additional information if requested under paragraph 17, and the Authority has, before the end of ~~the appropriate three month~~ that relevant period, , informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 16 and/or 17 is insufficient to enable the Authority to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.
23. The Authority's decision in relation to any notice given under paragraph 14 shall be in writing, shall be copied to the licensee and shall be in the public domain.
24. The Authority may amend or revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties, and any such amendment or revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

**Formula for the Temporary Physical Disconnection Payment (TPD<sub>t</sub>)**

25. For the purposes of paragraph 2, TPD<sub>t</sub> shall be an amount equal to the interruption payments made by the System Operator in the licensee's transmission system area and charged by the System Operator to the transmission licensee in accordance with the STC within each respective relevant year. Such costs shall include any financing or other costs such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if those costs had not been incurred.

**Formula for the Tender Fee Cost Adjustment (TCA<sub>t</sub>)**

26. For the purposes of paragraph 2, TCA<sub>t</sub> shall be an amount representing the payments made to the Authority in accordance with The Electricity (Competitive Tender for Offshore Transmission Licences) Regulations 2010 with respect to the recovery of the Authority's tender costs. Where the payments have been made in relation to an application for the grant of more than one licence, the licensee shall attribute an appropriate proportion of the relevant payment made to the Authority.

**Formula for the Marine and Coastal Act 2009 Cost Adjustment (MCA<sub>t</sub>)**

27. Where the licensee considers, and can provide supporting evidence, that there will be additional costs and/or expenses in relation to additional obligations imposed on the licensee with respect to the introduction of the Marine and Coastal Access Act 2009 requirements then the licensee may give written notice of these changes to the Authority.

28. A notice provided to the Authority under paragraph 27 shall give particulars of:
- (a) the additional obligations to which the notice relates and the reason(s) why the licensee considers that it will face additional costs or expenses in complying with those additional obligations, and demonstrate that such costs or expenses are not included within allowed transmission owner income;
  - (b) the expected amount of any change in costs and/or expenses that can be demonstrated by the licensee to be caused by the introduction of those new obligations under the Marine and Coastal Access Act 2009 and how the amount of these costs and/or expenses has been calculated;
  - (c) the proposed amount of any allowed revenue adjustment proposed as a consequence of the licensee incurring additional obligations in relation to the Marine and Coastal Access Act 2009 requirements and how this allowed revenue adjustment has been calculated; and
  - (d) any other analysis or information, which the licensee considers sufficient to enable the Authority to fully assess the additional obligations to which the notice relates.
29. If the Authority considers that the analysis or information provided in sub-paragraphs 28(a) to (d) above is insufficient to enable the Authority to assess the amount of any allowed income adjustment that might be approved, the Authority can request that the supporting evidence be supplemented with any additional information that it considers appropriate. If the Authority requests that the supporting evidence be supplemented with additional information, the licensee shall provide such information to the Authority within not more than one month of the Authority requesting such information.
30. A notice referred to in paragraph 27 shall be given as soon as is reasonably practicable after the new obligations imposed by the Marine and Coastal Access Act 2009 take effect, and, in any event, not later than three months after the end of the relevant year in which they occur.
31. The Authority shall determine:
- (a) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 27 were caused by the introduction of new obligations as a consequence of the Marine and Coastal Access Act 2009 requirements and not already incorporated within allowed transmission owner revenue;
  - (b) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that the additional obligations had not been implemented, and if not, what allowed income adjustment would secure that effect; and
  - (c) the periods, if any, over which the amounts should apply.
32. In relation to the relevant year  $t$ , the Marine and Coastal Act 2009 cost adjustment (MCA <sub>$t$</sub> ) shall be:
- (a) the value determined by the Authority under paragraph 31 above; or
  - (b) if the Authority has not requested additional information under paragraph 29 and the Authority has not made a determination under paragraph 31 above within three months of the date on which notice given by the licensee was provided to the

- Authority, the amount of the allowed income adjustment proposed by the licensee in that notice given to the Authority; or
- (c) if the Authority requests additional information under paragraph 29 and the Authority has not made a determination under paragraph 31 above within three months after receiving the additional information requested, the amount of the allowed income adjustment proposed by the licensee in the notice given to the Authority; or
  - (d) in all other cases the value zero, including situations where the Authority has not made a determination under paragraph 31 above within three months of the date on which notice given by the licensee provided to the Authority, or within three months of the date on which the Authority received additional information if requested under paragraph 29, and the Authority has, before the end of the appropriate three month period, informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 28 and/or 29 is insufficient to enable the Authority to assess whether additional costs or expenses has occurred and/or the amount of any allowed income adjustment.
33. The Authority's decision in relation to any notice given under paragraph 27 shall be in writing, shall be copied to the licensee and shall be in the public domain.

### **Amended Standard Condition E12–J9: Basis of Transmission Owner Charges**

1. The purpose of this condition is to detail the process for the licensee to prepare and submit to the Authority for approval, a statement setting out its basis for Transmission Owner Charges. The Authority only approves the basis upon which the charges for the purposes set out in paragraph 2 below are made.
2. The licensee shall as soon as practicable during the commencement relevant year and, in any event, not later than such date as the Authority shall specify, prepare and submit to the Authority 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 such of the information set out in paragraph 2 3 as is required by such paragraph to be included in the relevant statement; and
  - (c) for outage changes.
3. The statement referred to in paragraph 1 2 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.
4. Site specific charges for those items referred to in paragraph 2 3 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.

5. In addition to, and without prejudice to, the licensee's obligations under paragraph ~~4~~2, 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 and submit to the Authority 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. ~~The 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 (w~~Without prejudice to the foregoing), the statement or statements shall include ~~the~~including such information as ~~shall be~~ specified in the directions.

6. Each statement prepared in accordance with ~~this paragraph 5~~ shall, ~~with effect from the date on which it is approved by the Authority or such later date as the Authority shall specify,~~ replace the corresponding statement prepared by the licensee in accordance with paragraph ~~2~~4 or, as the case may be, this paragraph 5 (as from time to time revised in accordance with paragraph ~~5~~7) which is in force at such date, ~~and the~~ 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.

7. The licensee may periodically revise the statements in accordance with paragraphs ~~4~~2 and ~~4~~5 and shall, at least once in every year this licence 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.

8. The licensee shall send a copy of the statements prepared in accordance with paragraphs ~~4~~2 and ~~4~~5, and of each revision of such statements in accordance with paragraph ~~5~~7, to the Authority and shall publish any such statement on its website. ~~Each such revision shall require to be approved by the Authority and shall not become effective until approved by the Authority.~~

~~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 approved by the Authority pursuant to such paragraphs to any person who requests a copy of such statement or statements.~~

~~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 any directions issued by the Authority for the purposes of this condition.~~

## **Amended Standard Condition E12-J11: The Network Innovation Competition**

### **Introduction**

1. The purpose of this condition is to establish arrangements known as the Network Innovation Competition (NIC) with respect to the funding of innovative low carbon or environmental projects carried out by the licensee.
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)**

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

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

4. The NIC Funding Mechanism is the mechanism by which the licensee receives the amount of authorised NIC Funding in any Relevant Year from the System Operator, less any Funding Return as described in Part C and in accordance with the NIC Governance Document.

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

5. The Funding Return Mechanism relates to payments to be made by the licensee to the System Operator, 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.
6. The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 5.
7. Halted Project Revenues are any revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
8. Disallowed Expenditure is any revenue received by the licensee from the System Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
9. Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.

10. For the purposes of paragraph 9, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated under any of the arrangements by which the licensee recovers its allowed transmission owner revenue (OFTOt) from the System Operator, Excluded Services as defined in amended standard condition E12-J10 (Excluded Services), or the NIC Funding Mechanism.
11. Returned Project Revenues are:
  - (a) revenues received by the licensee from the 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.
12. The Authority may direct how the relevant revenues under paragraphs 11(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.
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:
  - (c) the amount of any Funding Return that the licensee must pay to the System Operator; and
  - (d) the manner in which and the timescale over which that amount is to be so paid.
14. The licensee must comply with any direction that is issued by the Authority under paragraph 13.

**Part D: Determination of the NIC term**

15. The NIC term is the net amount of NIC Funding less any Funding Return for the Relevant Year t that is to be paid to the licensee by the System Operator, or vice versa, in compliance with the determination made for that purpose in a direction issued by the Authority pursuant to the provisions of Part D of Special Condition 3I (The Network Innovation Competition) in the Transmission Licence held by the System Operator.
16. The NIC Funding to which paragraph 4 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).
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 Licensees, will specify, in accordance with the appropriate provisions set out in the NIC Governance Document:
  - (a) the net amount of the NIC term (whether negative or positive);

- (b) how the amount of that term has been calculated, taking account of any Funding Return; and
- (c) the manner in which and the timescale over which the System Operator is required to transfer that amount to the licensee or vice versa.

**Part E: The NIC Governance Document**

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.
19. The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
  - (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
  - (b) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);
  - (c) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
  - (d) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other electricity Transmission Licensees and electricity Distribution 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.
21. 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**

22. Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and other electricity Transmission Licensees and electricity Distribution Licensees with a condition of similar effect to this condition in their license, must:
  - (a) state that it proposes to issue the NIC Governance Document, and specify the date on which it proposes that the document should take effect;
  - (b) set out the text of the NIC Governance Document and the Authority's reasons for proposing to issue it; and
  - (c) specify the date (which must not be less than a period of 28 days from the date of the notice) within which representations with respect to the proposed NIC Governance

Document may be made.

19. The Authority will consider any representations that are duly made.
20. The requirements of paragraphs 21 and 22 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
21. In paragraph 21, “issuing the NIC Governance Document” includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

**Part G: Interpretation**

22. For the purposes of this condition:

"Disallowed Expenditure"	has the meaning given to that term in paragraph 8 of this condition.
"Directly Attributable Costs"	has the meaning given to that term in paragraph 10 of this condition.
"Eligible NIC Project"	means a project undertaken by the licensee or any other transmission licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
"Funding Return"	has the meaning given to that term in paragraph 6 of this condition.
"Funding Return Mechanism"	has the meaning given to that term in paragraph 5 of this condition.
"Halted Project Revenues"	has the meaning given to that term in paragraph 7 of this condition.
"NIC Funding"	has the meaning given to that term in paragraph 14 of this condition.
"NIC Funding Mechanism"	Refers to the arrangements (pursuant to amended standard condition E12-J11 of its transmission licence) for the recovery by the System Operator through its Transmission Network Charges of the amount of total authorised NIC Funding in any Relevant Year and the apportionment of that amount between the System Operator, the licensee, and other Transmission Licensees.
"Returned Royalty Income"	has the meaning given to that term in paragraph 9 of this condition.

"NIC Governance Document"	means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F, relating generally to the NIC and including matters relating to the operation of the NIC Funding Mechanism.
"Project Direction"	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.
"Transmission Network Charges"	means charges levied by the System Operator in respect of the provision of Transmission Network Services.

23. Expressions defined in paragraph 23 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions.

### **Condition E13: System Operator – Transmission Owner Code**

#### **Insert text below after paragraph 4**

5. Where the Authority issues a direction under this paragraph, any reference to a special condition in the STC or the STC Framework Agreement shall have such effect in relation to this licence as if "Amended Standard Condition" were construed as "Special Condition" as set out below:

<b><u>Amended Standard Condition reference</u></b>	<b><u>STC reference</u></b>
Amended Standard Condition E12–A1: Definitions and Interpretation	Special Condition A1: Definitions and Interpretation
Amended Standard Condition E12–A2: Market Rate Revenue Adjustment	Special Condition A2 : Market Rate Revenue Adjustment
Amended Standard Condition E12–A3: Post Tender Revenue Adjustment	Special Condition A3: Post Tender Revenue Adjustment
Amended Standard Condition E12–B1: Transmission System Area	Special Condition B1: Transmission System Area
Amended Standard Condition E12–B2: Activities Restrictions	Special Condition B2: Activities Restrictions
Amended Standard Condition E12–C1: Conduct of Transmission Business	Special Condition C1: Conduct of Transmission Business
Amended Standard Condition E12–C2: Separation and Independence of the Transmission Business	Special Condition C2: Separation and Independence of the Transmission Business
Amended Standard Condition E12–C3: Restriction on use of certain information	Special Condition C3: Restriction on use of certain information
Amended Standard Condition E12–C4: Appointment of Compliance Officer	Special Condition C4: Appointment of Compliance Officer
Amended Standard Condition E12–D1: Offshore Regulatory Reporting	Special Condition D1: Offshore Regulatory Reporting
<u>Amended Standard Condition E12–D2: Equity Transaction Reporting Requirement</u>	<u>Special Condition D2: Equity Transaction Reporting Requirement</u>
Amended Standard Condition E12–J1: Restriction of Transmission Revenue: Definitions	Special Condition J1: Restriction of Transmission Revenue: Definitions
Amended Standard Condition E12–J2: Restriction of Transmission Revenue: Revenue from Transmission Owner Services	Special Condition J2: Restriction of Transmission Revenue: Revenue from Transmission Owner Services
Amended Standard Condition E12–J3: Restriction of Transmission Revenue: Allowed Pass-through Items	Special Condition J3: Restriction of Transmission Revenue: Allowed Pass-through Items

Amended Standard Condition E12–J4: Restriction of Transmission Revenue: Annual Revenue Adjustment	Special Condition J4: Restriction of Transmission Revenue: Annual Revenue Adjustment
Amended Standard Condition E12–J5: Restriction of Transmission Revenue: Adjustments	Special Condition J5: Restriction of Transmission Revenue: Adjustments
Amended Standard Condition E12–J6: Provision of Information to the System Operator	Special Condition J6: Provision of Information to the System Operator
Amended Standard Condition E12–J7: Duration of the Revenue Restriction Provisions	Special Condition J7: Duration of the Revenue Restriction Provisions
Amended Standard Condition E12–J8: Allowances in respect of Security Costs	Special Condition J8: Allowances in respect of Security Costs
Amended Standard Condition E12–J9: Basis of Transmission Owner Charges	Special Condition J9: Basis of Transmission Owner Charges
Amended Standard Condition E12–J10: Excluded Services	Special Condition J10: Excluded Services
Amended Standard Condition E12–J11: The Network Innovation Competition	Special Condition J11: The Network Innovation Competition

6. For the purposes of Section E of this licence:

"STC"	means the system operator transmission owner code, being a document which sets out terms as between STC parties whereby the national electricity transmission system and each STC party's transmission system forming part thereof is to be planned, developed or operated and transmission services are to be provided together with any associated arrangements.
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## **Schedule 2: Relevant licence holders**

Blue Transmission London Array Limited

Blue Transmission Sheringham Shoal Limited

Blue Transmission Walney 1 Limited

Blue Transmission Walney 2 Limited

Greater Gabbard OFTO plc

TC Ormonde OFTO Limited

Thanet OFTO Limited

TC Barrow OFTO Limited

TC Gunfleet Sands OFTO Limited

TC Robin Rigg OFTO Limited

Diamond Transmission Partners BBE Limited

Diamond Transmission Partners Galloper Limited

Diamond Transmission Partners RB Limited

Diamond Transmission Partners Walney Extension Limited

TC Dudgeon OFTO plc

Humber Gateway OFTO Limited

TC Westermest Rough OFTO Limited

Gwynt y Mor OFTO plc

TC Lincs OFTO Limited

WoDS Transmission plc