

APPENDIX E

To:

Gwynt y Môr OFTO plc

Electricity Act 1989 Section 11A(2)

Notice of statutory consultation on a proposal to modify the offshore electricity transmission licences held by Gwynt y Môr OFTO plc

1. The Gas and Electricity Markets Authority (the 'Authority') proposes to modify the offshore electricity transmission licence held by Gwynt y Môr OFTO plc, granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the 'OFTO licence') by modifying:
 - 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
 - d. Condition E13: System Operator – Transmission Owner Codeand adding:
 - e. ASC E12-J11: The Network Innovation Competition
2. Below we set out each of the proposed modifications, including why it is proposed and its effect. For the avoidance of doubt, the headings given to each of the modifications in this Notice are for reference purposes only.
3. The proposed licence modifications are set out in the schedule attached to this Notice.

Proposed modifications to ASC E12-J1 and E12-J3

Deductible

4. The Authority intends to apply a deductible to the relevant revenue adjustment for successful income adjusting event ('IAE') claims in respect of an uninsurable latent defect. We consider that applying the relevant deductible is consistent with an insurance response as set out in the Decision Document published on 28 November 2018.¹
5. In order not to change the risk profile for offshore transmission owners ('OFTOs') licensed in tender rounds one to four, the amount of the deductible will be the level

¹ The Policy Decision – Income Adjusting Events in Offshore Transmission Owner Licences (the 'Decision Document') is available at: <https://www.ofgem.gov.uk/ofgem-publications/143553>.

of that set out in their invitation to tender questionnaire submitted in the tender in respect of the relevant licensee's licence.

6. The Authority is proposing to modify ASC E12-J3 to state that any revenue adjustment award will be reduced by the deductible where an IAE claim relates to an uninsurable event. The term 'uninsurable' will be included in ASC E12-J1 and defined in guidance issued by the Authority alongside this Notice.
7. Further detail on the reasons for, and effect of, this amendment can be found in our Decision Document published on 28 November 2018.²

Force Majeure

8. Under sub-paragraph 15(a) of ASC E12-J3, an IAE may arise in circumstances constituting force majeure under the System Operator Transmission Owner Code ('STC').³
9. The Authority is proposing to modify sub-paragraph 15(a) to make the force majeure definition independent from the STC and enable it to become a stand-alone provision. It is unusual to have a situation where modification to a subordinate document would result in amendments to a previously issued licence.
10. We therefore propose to remove the present reference to the STC at sub-paragraph 15(a) of ASC E12-J3 and insert a definition of force majeure into ASC E12-J1. The inserted definition of force majeure will parallel that in the STC with two exceptions. The inserted definition will exclude:
 - a. the requirement not to be able to perform an obligation under the STC; and
 - b. reference to 'fault of failure of Plant and Apparatus (which could not have been prevented by Good Industry Practice)'
11. For the same reasons, that is, to de-link the condition from the STC and provide clarity in the OFTO licence, we also propose to remove the reference to the STC at paragraph 15 when defining the term 'threshold amount'. This defined term is used only at paragraphs 15 and 21(b) of the licence and the modification will not change the interpretation or function of the condition.
12. Further detail on the reasons for, and effect of, this amendment can be found in our Decision Document published on 28 November 2018.⁴

Information requests

13. Paragraph 17 of ASC E12-J3 allows the Authority to request additional information from an OFTO that it considers appropriate in connection with an IAE claim.

² The Policy Decision – Income Adjusting Events in Offshore Transmission Owner Licences (the 'Decision Document') is available at: <https://www.ofgem.gov.uk/ofgem-publications/143553>.

³ The System Operator Transmission Owner Code ('STC') is available at: <https://www.nationalgrideso.com/industry-information/codes/system-operator-transmission-owner-code-stc>.

⁴ The Policy Decision – Income Adjusting Events in Offshore Transmission Owner Licences (the 'Decision Document') is available at: <https://www.ofgem.gov.uk/ofgem-publications/143553>.

14. For the avoidance of doubt, we propose to modify paragraph 17 to make it clear that the Authority may make more than one request for additional information where necessary.
15. Paragraph 17 also requires OFTOs to provide the additional information requested by the Authority within one month. We also propose to amend paragraph 17, to make it clear for the avoidance of doubt, that the Authority may extend the one month deadline where appropriate.

Commercial recourse

16. Paragraph 21(c) of ASC E12-J3 requires the Authority to set any revenue adjustment at an amount that restores the OFTO to the financial position it would have been in, had the failure event not taken place. We consider that OFTOs have a responsibility to pursue commercial recourse wherever possible, and that any IAE awards should be offset by the amount of recourse recovered by the OFTO.
17. For this reason, we propose to modify paragraph 21(c) to make it clear that the value of commercial recourse will be deducted from the amount of any IAE revenue adjustment, and to make clear that a partial revenue adjustment may be awarded by the Authority where an event or circumstance is determined as an IAE and while the process of recourse is ongoing.

Timing of determinations

18. Paragraph 22 of ASC E12-J3 requires the Authority to make determinations within three months from the date on which we receive all information necessary to consider a claim. This period currently includes the time needed for consultation under paragraph 21 of the same condition, which therefore constrains both the time needed for our determination and the time consultees have to respond to any consultation.
19. We therefore propose to amend paragraph 22 to provide that the three-month deadline does not include the time needed for consultation.

Event or circumstance

20. Paragraph 16 of ASC E12-J3 sets out the requirements of the notice under paragraph 14, including the particulars of the event.
21. Given that an IAE, as defined in paragraph 15, may arise from an 'event or circumstance', we consider that the words 'or circumstance' have been unintentionally omitted from paragraph 16 in requesting the particulars of the claim.
22. For clarity, we therefore propose to amend sub-paragraphs (a) to (d) to include the words 'or circumstance'. We do not consider that this proposed modification will effect the interpretation of the condition.

Publication of IAE notice

23. Paragraph 19 of ASC E12-J3 requires the Authority to make public, excluding any confidential information, any IAE notice following its receipt. As the content of IAE notices can contain a significant amount of confidential information, this often

requires a dialogue between the Authority and licensee to determine what parts of the relevant notice need to be redacted prior to publication.

24. For clarity, and for the avoidance of doubt, we therefore propose to include the words 'as soon as is reasonably practicable', to allow the Authority time to determine the confidential content of the notice and make the required redactions prior to publication.

Amendment of revenue adjustment

25. Paragraph 24 of ASC E12-J3 provides the Authority the ability to revoke an approval of an IAE and revenue adjustment with the consent of the licensee.
26. Given the complex nature of IAE claims, and the proposed modification to make clear that partial revenue adjustments may be awarded where an event has been determined to be an IAE, we consider that providing a power to amend an IAE and revenue adjustment is helpful and efficient particularly where revocation would not be the appropriate action. For the avoidance of doubt, this is not removing the requirement for the licensee's consent, nor the requirement to consult with the licensee and relevant parties, prior to any amendment or revocation.

Proposed modification to ASC E12-J9

27. The Authority has previously modified this condition for Offshore Transmission Owners ('OFTOs') licensed in tender round four onwards and now proposes to make the same modification to all OFTO licences issued in tender rounds one to three.
28. The Authority is proposing this modification to ASC E12-J9 to minimise the regulatory burden on licensees and to ensure consistency across the OFTO licensees as is appropriate.
29. The effect of the proposed modification is to remove the requirement for revised charging statements to be approved by the Authority each year. For clarity, Licensees are still required to send a copy of the revised charging statements to the Authority each year.

Proposed modification to include ASC E12-J11

30. In February 2015, the Authority modified all of the tender round one and tender round two licences granted at the time, save for the licence issued to Gwynt y Môr OFTO plc, to include amended standard condition E12-J11. The effect of these modifications was to require licensees to share learning with electricity distribution licensees under the Network Innovation Competition Governance Document.
31. The Authority has subsequently introduced the same modifications into all OFTO licences in tender round three onwards. However the condition was not incorporated into the licence issued for Gwynt y Môr OFTO plc in February 2015.
32. The Authority is now proposing this modification to add ASC E12-J11 to the Gwynt y Môr OFTO plc licence to rectify the omission.

Proposed modification to Condition E13

33. The Authority introduced a cross-reference to Special Condition D2 in Condition E13 in all OFTO licences awarded in tender round three onwards. Condition E13 sets out that references to special conditions in the STC shall have effect as if they said 'amended standard conditions' for the purposes of the OFTO licence. This is because that the STC refers to 'special' conditions of electricity transmission licences, and the OFTO licence uses 'amended standard' conditions, but this is just an inconsistent terminology matter.
34. We now propose to make the same modification to all tender round one and two OFTO licences to ensure correct and clear interpretation of the reference to 'special' conditions of the licence and also consistency across the OFTO licensees as is appropriate.

Next Steps

35. Further detail on the reasons for, and effect of, each of these modifications can be found in the cover letter accompanying this Notice.
36. A copy of the proposed modifications and other documents referred to in this notice has also been published on our website (www.ofgem.gov.uk). Alternatively, they are available from foi@ofgem.gov.uk.
37. Any representations with respect to the proposed licence modifications must be made by e-mail on or before **24 September 2020** to Stephen.Taylor@ofgem.gov.uk.
38. Due to the circumstances surrounding COVID-19, we are not issuing hard copies of the modification documents, nor do we expect consultation responses by post. If, however, you do wish to receive the documents and respond by post, we are able to organise this for you. Please contact us at the email address above, or on 020 3263 9936, to request hard copies of the relevant documents and postal address for responses.
39. We normally publish all responses on our website. However, if you do not wish your response to be made public, then please clearly mark it as not for publication. We prefer to receive responses in an electronic format so they can be placed easily on our website.
40. If we decide to make the proposed modifications, they will take effect not less than 56 days after the decision is published.

Jourdan Edwards
Head of the OFTO Regime, Networks

25 August 2020

Duly authorised on behalf of the
Gas and Electricity Markets Authority

Schedule

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":

‘ <u>"Force Majeure"</u>	<u>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.</u>
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and

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

‘ <u>"Uninsurable"</u>	<u>for the purposes of amended standard condition E12-J3 (Restriction of Transmission Revenue: Allowed Pass-through Items), has the meaning set out in the Guidance on the Definition of Uninsurable, being a document of that name issued by the Authority and updated by the Authority from time to time, following consultation;</u>
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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 (OFTO_t).
2. For the purposes of paragraph 4 of amended standard condition E12–J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services) the pass-through revenue adjustment term (PT_t) is derived from the following formula

$$PT_t = LF_t + RB_t + CEL_t + DC_t + IAT_t + TPD_t + TCA_t + MCA_t - RFG_t \quad (8)$$

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, whether of a positive or of a negative value, 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.
- RFG_t means the Refinancing Gain Share determined in accordance with paragraphs 34 to 51.

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 by the Licensee 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 Licensee's Transmission System that have arisen due to a change in legislative requirements, then the licensee shall give written notice of this change to the Authority.
8. A notice received by 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 and/or expenses in complying with those obligations, and demonstrate that such costs and/or expenses are not included within the Allowed Transmission Owner Revenue ($OFTO_t$);
 - (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 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 received under paragraph 8 is insufficient to enable the Authority to assess whether a change in decommissioning requirements has occurred and/or the amount of any revenue 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 give such information to the Authority within 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 legislative requirements, and, in any case, not later than three months after the end of the Relevant Year in which the change in requirements 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 revenue 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, the Authority shall determine what revenue adjustment would secure that effect; and
 - (c) the periods, if any, over which the revenue adjustment determined by the Authority 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 the notice given by the licensee was received by the Authority, the amount of the allowed revenue 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 of receiving all additional information requested, the amount of the allowed revenue 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 the notice given by the licensee was received by 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 and/or expenses have occurred and/or the amount of any allowed revenue 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 published.

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 Income Adjusting 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 the Allowed Transmission Owner Revenue (OFTO_t) of the licensee was 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 received by 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 revenue adjustment proposed as a consequence of that event or circumstance 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 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 received under paragraph 16 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 revenue adjustment that might be approved, the Authority can make a request or requests 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 give such information to the Authority within 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 referred to in paragraph 14 shall be given as soon as is reasonably practicable after the occurrence of the Income Adjusting Event, and, in any case, 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 received by 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 revenue 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, the Authority shall determine what revenue adjustment would secure that effect. 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 revenue adjustment related to the same event or circumstance as that set out in the notice pursuant to paragraph 14;
 - ii. subject to sub-paragraph (iii), the periods, if any, over which the revenue adjustment determined by the Authority 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 revenue 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 income adjusting event revenue adjustment (IAT_t) shall be:

- (a) the value, or relevant proportion of the value, determined by the Authority under paragraph 21 above; or
 - (b) the amount of the allowed revenue adjustment proposed as a consequence of the event in the notice given to the Authority under paragraph 14, 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 received by the Authority; or
 - (c) the amount of the allowed revenue adjustment proposed by the licensee in the notice given to the Authority 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) of receiving all additional information requested; 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 the date on which the notice was received by 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 revenue 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 published.
24. The Authority may amend or revoke an approval of an Income Adjusting Event and revenue 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 revenue adjustment shall be in writing, shall be copied to the licensee and shall be published.

Formula for the Temporary Physical Disconnection Payment (TPD_t)

25. For the purposes of paragraph 2, TPD_t 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_t)

26. For the purposes of paragraph 2, TCA_t shall be an amount, whether of a positive or of a negative value, representing:
- (a) the payments made by the licensee to the Authority in accordance with the Tender Regulations with respect to the 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; and

- (b) any re-payments made by the Authority to the licensee in accordance with the Tender Regulations as a result of the payments collected by the Authority exceeding its tender costs. Where the re-payments have been made in relation to an application for the grant of more than one licence, the licensee shall be attributed an appropriate proportion of the relevant re-payment made by the Authority.

Formula for the Marine and Coastal Act 2009 Cost Adjustment (MCA_t)

- 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, then the licensee may give written notice of these changes to the Authority.
- 28. A notice received by 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 and/or expenses in complying with those additional obligations, and demonstrate that such costs and/or expenses are not included within the Allowed Transmission Owner Revenue (OFTO_t);
 - (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 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 received under paragraph 28 above is insufficient to enable the Authority to assess whether additional obligations have been imposed on the licensee and/or the amount of any revenue 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 give such information to the Authority within 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 take effect.
- 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 (OFTO_t);

- (b) if so, whether the amount of the proposed revenue adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if the additional obligations had not been implemented, and if not, the Authority shall determine what revenue adjustment would secure that effect; and
 - (c) the periods, if any, over which the revenue adjustment determined by the Authority should apply.
32. In relation to the Relevant Year t , the Marine and Coastal Act 2009 cost adjustment term (MCA_t) 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 the notice was received by the Authority under paragraph 27, the amount of the allowed revenue 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 all additional information requested, the amount of the allowed revenue adjustment proposed by the licensee in the notice given to the Authority under paragraph 27; 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 the notice given by the licensee was received by 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 and/or expenses have occurred and/or the amount of any allowed revenue 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 published.

Formula for the Refinancing Gain Share (RFG_t)

Part A: Introduction

34. The refinancing of External Debt in each of the forms described below shall be a "Refinancing" for the purpose of determining a Refinancing Gain Share:
- (a) any amendment, variation, novation, supplement or replacement of any External Debt financing agreement;
 - (b) the exercise of any right, or the grant of any waiver or consent, under any External Debt financing agreement;

- (c) the disposition of any rights or interests in, or the creation of any rights of participation in respect of, the External Debt financing agreements or the creation or granting of any other form of benefit or interest in either the External Debt financing agreements or the contracts, revenues or assets of the licensee whether by way of security or otherwise; and
- (d) any other arrangement put in place by the licensee or another person which has an effect which is similar to any of (a)–(c) above or which has the effect of limiting the licensee’s ability to carry out any of (a)–(c) above.

Part B: Notification of a Qualifying Refinancing

- 35. A Qualifying Refinancing is a Refinancing, other than an Exempt Refinancing, that will give rise to a Refinancing Gain greater than zero.
- 36. Where the licensee intends to undertake a Refinancing that may qualify as a Qualifying Refinancing it shall give written notification of such to the Authority including the terms of the Refinancing, no later than three months prior to when the Refinancing is expected to take place.
- 37. Following receipt of a notification under paragraph 36 the Authority may request additional information including, but not limited to:
 - (a) full details of the terms of the Refinancing, including a copy of the proposed model (based on the Financial Model) relating to it;
 - (b) the proposed value of any financial gain realised from the Refinancing as calculated in accordance with paragraphs 40 to 42 (inclusive) (“Proposed Refinancing Gain”) and evidence of how it was calculated;
 - (c) the proposed value of the Refinancing Gain Share (RFG_t) (“Proposed Refinancing Gain Share”) as calculated in accordance with paragraph 43 including the relevant year(s) in which it would apply and evidence of how it was calculated; and
 - (d) any other analysis or information, that would assist the Authority to fully assess the Refinancing to which the notice relates;

and the licensee must provide such information within two weeks of the Authority’s request.

- 38. If the Authority considers that the analysis or information received under paragraph 36 is insufficient to enable the Authority to determine if the Refinancing will be a Qualifying Refinancing or to determine the value of the Refinancing Gain and the Refinancing Gain Share (RFG_t) or the period(s), if any, over which the Refinancing Gain Share (RFG_t) will apply, the Authority may request any additional information that it considers appropriate. If the Authority requests additional information, the licensee shall give such information to the Authority within one month of the Authority’s request.
- 39. For the avoidance of doubt, where a Refinancing will not give rise to a Refinancing Gain greater than zero, the licensee does not need to give written notification of the Refinancing to the Authority under paragraph 36.

Part C: Calculation of the Refinancing Gain and the Refinancing Gain Share (RFG_t)

- 40. The licensee shall calculate the Proposed Refinancing Gain that it must give to the

Authority under sub-paragraph 37(b) as an amount equal to the greater of zero and (A - B), where:

A = the Net Present Value of the Distributions to be made to each Relevant Person (without double counting) following the Refinancing projected immediately after the Qualifying Refinancing (taking into account the effect of the Refinancing and using the Financial Model as updated so as to be current immediately prior to the Refinancing);

B = the Net Present Value of the Distributions to be made to each Relevant Person (without double counting) following the Refinancing projected immediately prior to the Refinancing (without taking into account the effect of the Refinancing but using the Financial Model as updated so as to be current immediately prior to the Refinancing).

41. The discount rate used to calculate the Net Present Values A and B for the purposes of paragraph 40, shall be equal to the blended internal rate of return to the Relevant Persons over the expected lifetime of the licence as set out in the Financial Model (“Equity IRR”).
42. For the purposes of paragraph 40, the value of the Refinancing Gain is net of any reasonable and proper breakage costs necessary to facilitate the Qualifying Refinancing together with the reasonable and proper professional costs that the licensee will directly incur in relation to the Qualifying Refinancing (without double counting).
43. The licensee shall calculate the Proposed Refinancing Gain Share (RFG_t) as the amount, which, when summed over the Relevant Years to which it applies, shall represent 50 per cent of the Refinancing Gain realised by the licensee in a Qualifying Refinancing.

Part D: Determination of the Refinancing Gain and the Refinancing Gain Share (RFG_t)

44. Where the Authority determines that the Refinancing is a Qualifying Refinancing, the Authority shall determine, subject to paragraph 45, the value of the Refinancing Gain and the Refinancing Gain Share (RFG_t) and the period(s), if any, over which the Refinancing Gain Share (RFG_t) will apply. The Refinancing Gain and the Refinancing Gain Share (RFG_t) shall be determined in accordance with the principles set out in paragraphs 40 to 43 (inclusive). The Refinancing Gain Share (RFG_t) may be:
 - (a) a lump sum amount, applicable for one Relevant Year; or
 - (b) an ongoing amount applicable over more than one Relevant Year;
45. In relation to the Relevant Year t, the Refinancing Gain and the Refinancing Gain Share Mechanism (RFG_t) shall be:
 - (a) the values determined by the Authority under paragraph 44; or
 - (b) if the Authority has not requested additional information under paragraph 38 and the Authority has not made a determination under paragraph 44 within three months of the date on which the notice was received by the Authority under paragraph 36 and the Refinancing referred to in the notice has taken place, the Proposed Refinancing Gain and the Proposed Refinancing Gain Share given by the licensee to the Authority under paragraph 37; or
 - (c) if the Authority has requested additional information under paragraph 38 and the Authority has not made a determination under paragraph 44 within three months of receiving all additional information requested and the Refinancing referred to in the

notice has taken place, the Proposed Refinancing Gain and the Proposed Refinancing Gain Share given by the licensee to the Authority under paragraph 37; or

- (d) in all other cases, zero, including situations where the Authority receives a notice from the licensee under paragraph 36 but the Refinancing referred to in the notice does not subsequently take place.

Part E: Exemptions to the Refinancing Gain Share (RFG_I)

- 46. A Refinancing will be exempt for the purposes of determining a Refinancing Gain Share where it is undertaken to remove a licensee from Financial Distress irrespective of whether it will give rise to a Refinancing Gain greater than zero (“Exempt Refinancing”).
- 47. Where the licensee intends to undertake a Refinancing that may qualify as an Exempt Refinancing it must give written notification to the Authority, and use best endeavours to provide this no later than three months prior to when the Refinancing is expected to take place, detailing:
 - (a) full details of the terms of the Exempt Refinancing, including a copy of the proposed model (based on the Financial Model) relating to it; and
 - (b) any other analysis or information, that would assist the Authority to determine if the Refinancing is an Exempt Refinancing to which the notice relates.
- 48. If the Authority considers that the analysis or information provided under paragraph 47 is insufficient to enable it to determine whether the Refinancing is an Exempt Refinancing, the Authority may request any additional information that it considers appropriate. If the Authority requests additional information, the licensee shall give such information to the Authority within one month of the Authority’s request.
- 49. The Authority shall determine whether the Refinancing detailed in the notice received under paragraph 47 is an Exempt Refinancing, within three months of the later of:
 - (a) the date the notice was received by the Authority under paragraph 47; or
 - (b) where applicable, the date the Authority received from the licensee all additional information requested under paragraph 48.
- 50. If the Authority has not made a determination under paragraph 49 within three months of the later of:
 - (a) the date the notice was provided to the Authority under paragraph 47; or
 - (b) where applicable, the date the Authority received from the licensee all additional information requested under paragraph 48.the Refinancing detailed in the notice provided under paragraph 47 shall be deemed to be an Exempt Refinancing.
- 51. The Authority’s determinations in relation to any notices given under paragraphs 36 or 47 shall be in writing, shall be copied to the licensee and shall be published.

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 statement shall include the including such information as ~~shall be~~ specified in the directions. 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 or ~~1~~ 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.

6. The licensee may periodically revise the statements in accordance with paragraphs ~~1~~ 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.

7. The licensee shall send a copy of the statements prepared in accordance with paragraphs ~~1~~ 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.~~

8. ~~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.~~

9. ~~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 (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.
- 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

- 21. 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.

- 22. The Authority will consider any representations that are duly made.
- 23. 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.
- 24. 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

- 25. For the purposes of this condition:

<u>"Disallowed Expenditure"</u>	<u>has the meaning given to that term in paragraph 8 of this condition.</u>
<u>"Directly Attributable Costs"</u>	<u>has the meaning given to that term in paragraph 10 of this condition.</u>
<u>"Eligible NIC Project"</u>	<u>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.</u>
<u>"Funding Return"</u>	<u>has the meaning given to that term in paragraph 6 of this condition.</u>
<u>"Funding Return Mechanism"</u>	<u>has the meaning given to that term in paragraph 5 of this condition.</u>
<u>"Halted Project Revenues"</u>	<u>has the meaning given to that term in paragraph 7 of this condition.</u>
<u>"NIC Funding"</u>	<u>has the meaning given to that term in paragraph 14 of this condition.</u>
<u>"NIC Funding Mechanism"</u>	<u>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.</u>
<u>"Returned Royalty Income"</u>	<u>has the meaning given to that term in paragraph 9 of this condition.</u>

"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.

26. 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:

<u>Amended Standard Condition reference</u>	<u>STC reference</u>
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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