

National Grid Electricity Transmission Plc
Electricity transmission licence
Special Conditions

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Chapter 1: Definitions

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Special Condition 1A. Definitions and Interpretation

Introduction

1A.1 This condition sets out most of the defined words and expressions (most of which begin with capital letters) that are used in the Special Conditions, and gives their definitions.

1A.2 However:

- (a) some words and expressions which are only used in a particular Special Condition are defined in that condition; and
- (b) some words and expressions used in the Special Conditions are defined in Standard Condition 1 of the Standard Conditions (although capital letters are not used in those conditions to denote defined terms).

1A.3 Where a word or expression is defined both in this condition and in Standard Condition 1 of the Standard Conditions, the definition in this condition shall prevail.

1A.4 Any reference in these Special Conditions to:

- (a) a provision thereof;
- (b) a provision of the standard conditions of electricity transmission licences;
- (c) a provision of the standard conditions of electricity supply licences;
- (d) a provision of the standard conditions of electricity distribution licences;
- (e) a provision of the standard conditions of electricity generation licences;
- (f) a provision of the standard conditions of electricity interconnector licences

shall, if these or the standard conditions in question come to be modified, be construed, so far as the context permits as a reference to the corresponding provision of these or the standard conditions in question as modified.

Definitions in alphabetical order

1A.5 In the Special Conditions, unless the context otherwise requires:

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| the Act | has the meaning given to that term in Standard Condition A1 (Definitions and interpretation). |
| Affiliate | has the meaning given to that term in Standard Condition A1 (Definitions and interpretation). |
| Allowable NIA Expenditure | has the meaning given to that term in Part B of Special Condition 3H (The Network Innovation Allowance). |
| Allowed Expenditure | means the amount of costs, approved by the Authority, that is used to form a Price Control |

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| | Financial Model Variable Value (PCFM Variable Value). |
| Allowed Pass-through Items | means the items referred to in Special Condition 3B (Calculation of Allowed Pass-through Items). |
| Allowed Security Costs | shall have the same meaning it has in the Fuel Security Code. |
| Annual Iteration Process | means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it. |
| Associate | means: <ul style="list-style-type: none"> (a) an Affiliate or Related Undertaking of the licensee; (b) an Ultimate Controller (as defined in standard condition A1 (Definitions and interpretation)) of the licensee; (c) a Participating Owner of the licensee; or (d) a Common Control Company. |
| Authority | means the Gas and Electricity Markets Authority. |
| Authority's website | means www.ofgem.gov.uk . |
| Average Specified Rate | means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made. |
| Balancing Mechanism | has the meaning given in Standard Condition C1 (Interpretation of Section C). |
| balancing services | has the meaning given to this term in Standard Condition C1 (Interpretation of Section C). |
| Balancing Services Activity | has the meaning given to this term in Standard Condition C1 (Interpretation of Section C). |

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| Balancing Services Activity Revenue | means the total revenue derived by the licensee from the carrying on of the Balancing Services Activity. |
| Balancing Services Activity Revenue Restriction | means Special Conditions 4A (Restriction of System Operator Internal Revenue) and 4C (Balancing Services Activity Revenue Restriction on External Costs), together with such parts of Special Conditions 4B (Balancing Services Activity Conditions: Interpretation) and Special Conditions 4D (Restriction on Contracting with BSC Parties) to 4K (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs) inclusive as are ancillary thereto. |
| Base Transmission Revenue | means the revenue calculated in accordance with the formula set out in Part C of Special Condition 3A (Restriction on Transmission Network Revenue). |
| Baseline Wider Works Output(s) | means a specific programme of Wider Works the licensee plans to Deliver where such works are approved by the Authority and set out as a Baseline Wider Works Output in Table 1 in Part A of Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure). |
| Black Start | shall have the same meaning as is given to that term in the Grid Code. |
| BM Unit | shall have the meaning given in the BSC. |
| Boundary Transfer Capability | for the purposes of Special Condition 6J (Allowed Expenditure for Incremental Wider Works) means the maximum amount of power flow across specific transmission circuits following the most onerous secured event of a fault outage without exceeding the thermal rating of any asset forming part of the National Electricity Transmission System, without any unacceptable voltage conditions or insufficient voltage performance and without any transient or dynamic instability of the electrical plant, equipment and systems directly or |

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| | indirectly connected to the national electricity system. |
| BSC | shall have the meaning given in Standard Condition C1 (Interpretation of Section C). |
| BSC Party | has the meaning given in Standard Condition C1 (Interpretation of Section C). |
| Capex Rolling Incentive | means the mechanism giving rise to the capital expenditure incentive revenue adjustment term, CxIncRA _i in Special Condition D9 (Capital Expenditure Incentive and Safety Net) of this licence in the form it was in on 31 March 2013, having regard to the process set out in Appendix 2 of the Rollover Final Proposals dated 28 November 2011 (162/11). |
| Capital Contributions | means any capital payment made by the licensee to a New Provider in order to facilitate the provision of Black Start services by the New Provider. |
| Carbon Benefits | for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) and Special Condition 6E (The Innovation Roll-out Mechanism) means a contribution to the Government's current strategy for reducing greenhouse gas emissions, as set out in the document entitled the "Carbon Plan" published by the Department of Energy and Climate Change. |
| Common Control Company | means any company, any of whose Ultimate Controllers (applying the definition in standard condition A1 (Definitions and interpretation) but substituting that company for the licensee) is also an Ultimate Controller of the licensee. |
| Competent Authority | means the Secretary of State, the Authority, the Compliance Officer, the Stock Exchange, the Panel on Take-overs and Mergers, or any local or national agency, regulatory body, authority, department, inspectorate, minister (including Scottish Ministers), ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, the United Kingdom, the United States of America or the European Community. |
| Confidential Information | means any information which the licensee receives from another Transmission Licensee relating to |

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the design or construction of a possible connection or relating to financial matters associated with a possible connection or any information which is derived from such information (but in each case excluding any such information which the licensee has properly received or will properly receive through another means) shall, for the purposes of this condition and Special Condition 2H (Appointment of a compliance officer) and until such time as the licensee accepts the TO offer relating to that possible connection or the applicant accepts an alternative offer made by the licensee and there are no outstanding alternative offers in respect of that TO offer, be confidential information.

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| Cost and Output Adjusting Event (COAE) | has the meaning given to it by Part B of Special Condition 6I (Specification of Baseline Wider Works and Strategic Wider Works Outputs and the Assessment of Allowed Expenditure). |
| CUSC | has the meaning given in Standard Condition C1 (Interpretation of Section C). |
| CUSC Party | has the meaning given in Standard Condition C1 (Interpretation of Section C). |
| Customer | for the purposes of Special Condition 3D (Stakeholder Satisfaction Output) means any Stakeholder who pays the licensee through network charges or fees. |
| Customer Satisfaction Survey | means an annual survey of Customers made under provisions of Special Condition 3D (Stakeholder Satisfaction Output). |
| Day Ahead Forecast | means the forecast of Wind Generation Output published by the licensee no later than 17:00 hours on the day before the day to which the forecast relates. |
| Delivery/Delivered | for purposes of Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure), Special Condition 6J (Allowed Expenditure for Incremental Wider Works) and Special Condition 6L (Baseline Demand Related Infrastructure) means works that have undergone second stage electrical commissioning on the licensee's Transmission System. |

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| Demand Related Infrastructure Works/Demand Works | means the new electricity transmission infrastructure works that are needed to provide customer demand connections and to increase the offtake capacity at grid exit points that are specified in a Relevant User Connection Agreement or a Relevant DNO Modification Request. |
| Designated Areas | for the purposes of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas) means areas that have a statutory designation as a National Park or Area of Outstanding Natural Beauty under the National Parks and Access to the Countryside Act 1949, and also areas that have a statutory designation as a National Scenic Area under the Town and Country Planning (Scotland) Act 1997. |
| Development Consent Order (DCO) | means the consent granted by the Secretary of State under the Planning Act 2008 for a developer to proceed with the construction of transmission infrastructure, classified in England and Wales as a Nationally Significant Infrastructure Project. |
| Directly Attributable Costs | has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition). |
| Disallowed Expenditure | has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition). |
| Disapplication Date | means the date on which the Licensee proposes that the Relevant SO Special Conditions or the Relevant TO Special Conditions should be disapplied in whole or in part as specified in a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions). |
| Disapplication Request | means a request to disapply the Relevant SO Special Conditions or the Relevant TO Special Conditions (in whole or in part) for the purposes of and in accordance with Special Condition 8A (Disapplication of Relevant Special Conditions). |
| DNO | means a Distribution Network Operator. |
| DNO Mitigation | means the construction of new DNO substation bays, new overhead line works, new underground |

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| | cable and removal of existing towers associated with a DNO. |
| Electricity Market Reform Enduring Solution | for the purposes of Special Condition 7D (Arrangements for the recovery of SO uncertain costs) means costs incurred, or expected to be incurred, by the licensee for the purposes of carrying on EMR Functions (as defined in Chapter 5 of Part 2 of the Energy Act 2013). |
| Electricity Transmission Group | means any group of Transmission Owners in which the licensee and every other Transmission Owner within the group are Affiliates. |
| Eligible NIA Expenditure | means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects and Eligible NIC Bid Preparation Costs and forms part of Allowable NIA Expenditure as set out in Part B of Special Condition 3H (The Network Innovation Allowance). |
| Eligible NIA Internal Expenditure | means the amount of Eligible NIA Expenditure spent or accrued on the internal resources of the licensee. |
| Eligible NIA Projects | means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of Special Condition 3H (The Network Innovation Allowance). |
| Eligible NIC Bid Preparation Costs | means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition as defined in Special Condition 3I (The Network Innovation Competition) that satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition under the provisions of Special Condition 3H (The Network Innovation Allowance). |
| Eligible NIC Project | for the purposes of Special Condition 3I (The Network Innovation Competition) means a project undertaken by the Licensee or any other electricity Transmission Licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism. |

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| Embedded Transmission System | means a transmission system consisting of plant and equipment that includes relevant offshore lines which forms part of the National Electricity Transmission System by utilising a connection to an electricity distribution system. |
| Enhanced Physical Site Security Costs | means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee's Transmission System. |
| Enhanced Security Costs | for the purposes of Special Condition 7D (Arrangements for the recovery of SO uncertain costs) means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the security of any of the IT systems required to operate the licensee's Transmission System. |
| Enhancing Pre-existing Infrastructure (EPI) | means a reduction in the impact of the assets forming part of the licensee's Transmission System on 1 April 2013 on the visual amenity of National Parks, National Scenic Areas and Areas of Outstanding Natural Beauty ("Designated Areas") which meet the criteria set out in the licensee's Mitigating Pre-existing Infrastructure Policy prepared in accordance with Part A of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas). |
| Environmental Discretionary Reward (EDR) Scheme Guidance | a document published, and from time to time revised by the Authority in accordance with Part D of Special Condition 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme) for the purposes of setting out the submission requirements, assessment process and procedures, administration, and governance of the Environmental Discretionary Reward Scheme. |
| EPI Allowed Expenditure (EPIE) | has the meaning given to it by paragraph 6G.2 of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas). |
| EPI Outputs | means those EPI outputs that are set out in Table 1 of Part B of Special Condition 6G (Mitigating the |

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| | impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas). |
| ET1 Price Control Financial Handbook | means the document of that name that was published by the Authority on 1 February 2013 and came into effect on 1 April 2013 that: <ul style="list-style-type: none"> (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and (b) contains, in particular, the ET1 Price Control Financial Methodologies, as modified from time to time in accordance with the provisions of Special Condition 5A (Governance of ET1 Price Control Financial Instruments). |
| ET1 Price Control Financial Instruments | comprise the ET1 Price Control Financial Handbook, which contains the ET1 Price Control Financial Methodologies, and the ET1 Price Control Financial Model. |
| ET1 Price Control Financial Methodologies | means the methodologies that: <ul style="list-style-type: none"> (c) are named as such in the ET1 Price Control Financial Handbook; and (d) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process, as modified from time to time in accordance with the provisions of Special Condition 5A (Governance of ET1 Price Control Financial Instruments). |
| ET1 Price Control Financial Model | means the model of that name (with a suffix referring to the month of November in Relevant Year t-1 as that term is defined for the purpose of Special Condition 5A (Governance of ET1 Price Control Financial Instruments)) that was first published by the Authority on 1 February 2013 and came into effect on 1 April 2013: |

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| | (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with the suffix referred to above) on the Authority’s Website; and |
| | (b) that the Authority will use to determine the value of the terms MOD _t and SOMOD _t through the application of the Annual Iteration Process, as modified from time to time in accordance with the provisions of Special Condition 5A. |
| ET1 Price Control Financial Model Working Group | means the working group identified in and whose terms of reference are set out in Chapter 1 of the ET1 Price Control Financial Handbook. |
| Exceptional Event | for the purposes of Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied) means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes electricity not to be supplied to a customer and includes (without limitation) an act of the public enemy, war declared or undeclared, threat of war, terrorist act, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire (not related to weather), any severe weather event resulting in more than 50 faults being recorded by the licensee on the licensee’s Transmission System in any 24 hour period, governmental restraint, Act of Parliament, any other legislation, bye law, directive or decision of a Court of Competent Authority or the European Commission or any other body having jurisdiction over the activities of the licensee provided that lack of funds will not be interpreted as a cause beyond the reasonable control of the licensee. |
| Excluded Services | means the services that fall within the definition in Part C of Special Condition 8B (Services treated as Excluded Services). |
| Feasibility Studies | means work undertaken by the licensee and any potential New Provider in order to assess the ability of the potential New Provider to provide Black Start services. |
| Funded Construction Works | means specific works planned or undertaken by the licensee in respect of a given Scheduled Project, being those works for which key project milestones and forecast output measures are defined in respect of construction works and |

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| | which are identified by the Authority as in scope of construction cost allowances specified in Appendix 2 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). |
| Funded Pre-construction Works | means specific works planned or undertaken by the licensee in respect of a given Scheduled Project, being those works for which key project milestones are defined in respect of pre-construction works and which are identified by the Authority as in scope of pre-construction cost allowances specified in Appendix 2 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). |
| Funding Return | has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition). |
| Funding Return Mechanism | has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition). |
| Further Works | means specific works planned or undertaken by the licensee in respect of a given Transmission Investment Incentives Project, being works which do not fall within the definition of Funded Pre-construction Works or Funded Construction Works but for which project-specific capital expenditure allowances in respect of one or more TII years are specified in Table 4 of Appendix 1 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) and taken into account in calculating the TII Allowance Adjustment in accordance with paragraph 6B.11 of that condition. |
| Generation Connections | for the purposes of Special Condition 6F (Baseline generation connection outputs and generation connections volume driver) means the transmission infrastructure works required to connect new Relevant Generation Capacity. |
| Halted Project Revenues | has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition). |

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| High Quality Outcomes | for the purposes of determinations made by the Authority pursuant to the provisions of Part B of Special Condition 3D (Stakeholder Satisfaction Output), “High Quality Outcomes” will be defined in the Stakeholder Engagement Reward Guidance in relation to the key areas of assessment set out in the Guidance for the Relevant Year. |
| Incentivised Loss of Supply Event | <p>for the purposes of Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied) means any event on the licensee’s Transmission System that causes electricity not to be supplied to a customer, subject to the following exclusions:</p> <ul style="list-style-type: none"> (i) any energy not supplied to customers that have requested a lower standard of connection than that provided in the National Electricity Transmission System Security and Quality of Supply Standard (or such other standard of planning and operation as the Authority may approve from time to time and with which the licensee may be required to comply); (ii) any energy not supplied resulting from a shortage of available generation; (iii) any energy not supplied resulting from a de-energisation or disconnection of a user’s equipment under an event of default as defined in the CUSC; (iv) any energy not supplied resulting from a user’s request for disconnection in accordance with the Grid Code; (v) any energy not supplied resulting from emergency de-energisation by a user as defined in the CUSC; (vi) any energy not supplied resulting from an emergency de-energisation or disconnection of a user’s equipment necessary to ensure compliance with the Electricity Safety, Quality and Continuity Regulations 2002, as amended from time to time, or otherwise to ensure public safety; and (vii) any event lasting less than or equal to three minutes. |
| Incremental Wider Works (IWW) | means transmission infrastructure works delivered by the licensee that result in an increase in Boundary Transfer Capability that the licensee determined as required in accordance with the licensee’s Policy under Part B of Special |

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| | Condition 6J (Allowed Expenditure for Incremental Wider Works). |
| Independent Examiner | means a person or persons nominated by, and independent of, the licensee or any business or Associate of the licensee with the skill and knowledge to undertake an evaluation of the practices, procedures and systems implemented by the licensee in order to secure compliance with Special Condition 2N (Electricity Market Reform) and 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities). |
| Information | for the purposes of Special Condition 2N (Electricity Market Reform) and Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) means all information of whatever nature and in whatever form including, without limitation, in writing, orally, electronically and in a visual or machine-readable medium including CD ROM, magnetic and digital form. |
| Innovation | for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means any or all of the following: (a) a specific piece of New Network Equipment; (b) a novel arrangement or application of new or existing Network Equipment; (c) a novel operational practice; or (d) a novel commercial arrangement, that is not, or is not within the scope of, an Ordinary Business Arrangement. |
| Innovation Roll-out Costs | for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means the proposed cost of Rolling out a Proven Innovation. |
| Interruption Payment | for the purposes of Special Condition 3B (Calculation of allowed pass-through items) has the same meaning as set out in section 11 of the Connection and Use of System Code provided for in paragraph 2 of Standard Condition C10. |

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| Maximum Revenue | means the revenue calculated in accordance with the formula set out in Part B of Special Condition 3A (Restriction of Transmission Network Revenue). |
| Maximum SO Internal Revenue (SOI) | means the revenue calculated in accordance with the formula set out in Part B of Special Condition 4A (Restriction of System Operator Internal Revenue). |
| Methodology for Network Output Measures (the NOMs methodology) | means the methodology that was in place under this licence under the name of “network output measures methodology” pursuant to Condition B17 (Network Output Measures) in the form in which this licence was in force at 31 March 2013 or as subsequently amended as provided for in Special Condition 2L (Methodology for Network Output Measures). |
| National Electricity Transmission System | has the meaning given to that term in Standard Condition A1 (Definitions and interpretation). |
| Network Access Policy | has the meaning given to that term in paragraph 2J.1 of Special Condition 2J (Network Access Policy) and includes or makes provision for details consistent with Part B of that condition. |
| Network Assets | for the purposes of Special Condition 2L (Methodology for Network Output Measures) means the assets that collectively form the licensee’s Transmission System, and includes the principal components of those assets. |
| Network Equipment | for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) and Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means any asset that for the time being forms part of the licensee’s Transmission System and any control centre for use in conjunction therewith. |
| Network Innovation Allowance (NIA) | has the meaning given to that term in paragraph 3H.1 of Special Condition 3H (The Network Innovation Allowance). |
| Network Innovation Competition (NIC) | has the meaning given to that term in Special Condition 3I (The Network Innovation Competition). |
| Network Output Measures | means the measures defined in paragraph 2L.4 of Special Condition 2L (Methodology for Network Output Measures). |

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| Network Replacement Outputs | for the purposes of Special Condition 2M (Specification of Network Replacement Outputs) means the Replacement Priority profile that the licensee is required to deliver on its Transmission System by 31 March 2021 that has been approved as part of the Price Control Review and funded in its Opening Base Revenue Allowance, as measured by the Network Output Measures. |
| New Network Equipment | for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) and Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means any new asset that does not yet form part of the licensee's Transmission System or control centre for use in conjunction therewith. |
| New Provider | means an authorised electricity or other provider in respect of a generation set or other asset in respect of which the licensee has not entered into any agreement to provide Black Start services prior to the date on which this condition takes effect in this licence. |
| NIA Governance Document | means the document issued by the Authority under Part D of Special Condition 3H (The Network Innovation Allowance), subject to the requirements of Part E of Special Condition 3H (The Network Innovation Allowance), relating generally to the establishment and operation of the NIA and including matters relating to the calculation of the Eligible NIA Expenditure. |
| NIA Percentage | means the percentage of Base Transmission Revenue which the licensee may use for Eligible NIA Projects as set out in Appendix 1 of Special Condition 3H (The Network Innovation Allowance). |
| NIC Funding | has the meaning given to that term in Part B of Special Condition 3I (The Network Innovation Competition). |
| NIC Funding Mechanism | has the meaning given to that term in Part B of Special Condition 3I (The Network Innovation Competition). |
| NIC Governance Document | means the document issued by the Authority under Part E of Special Condition 3I (The Network Innovation Competition), subject to the requirements of Part F, relating generally to the |

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| | NIC and including matters relating to the operation of the NIC Funding Mechanism. |
| NOMs Methodology Objectives | means the objectives set out in Part B of Special Condition 2L (Methodology for Network Output Measures). |
| Non-chargeable Outage Change | means any change to the outage plan notified to the licensee by the System Operator which the licensee and the System Operator agree is not an outage change under Special Conditions 2N (Provision of Information to the System Operator), 8B (Services Treated as Excluded Services) and 8C (Basis of transmission owner charges). |
| Non-Domestic Rates | means: <ul style="list-style-type: none"> (a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and (b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government etc (Scotland) Act 1994, or any legislation amending or replacing those enactments. |
| Offshore Transmission Owner | means the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section E (offshore transmission owner standard conditions) Direction and where Section E remains in effect (whether or not subject to any terms included in Section E (offshore transmission owner standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject). |
| Opening Base Revenue Allowance(s) | means the value of base revenue determined by the Authority and as set out in Appendix 1 of Special Condition 3A (Restriction of Transmission Network Revenue). |
| Operational Forum Meeting | means the industry forum at which the licensee provides an update on the operation of the National Electricity Transmission System to relevant parties. |
| Ordinary Business Arrangement | for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means any or all |

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| | of the following: (a) a specific piece of existing Network Equipment; (b) an arrangement or application of existing Network Equipment; (c) an operational practice; (d) a commercial arrangement, that is being used or is capable of being used, without modification, by the licensee or another Transmission Owner at the start of the Price Control Period. |
| Ordinary SO Business Arrangement | for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means any or all of the following: (a) a specific piece of existing Network Equipment; (b) an arrangement or application of existing Network Equipment; (c) an operational practice; (d) a commercial arrangement, that is being used or is capable of being used, without modification, by the licensee at the start of Relevant Year t. |
| Outage Change | shall have the meaning given in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs), paragraph 4C.27. |
| Output Amendment (OA) | has the meaning given to it by Part D of Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure). |
| Output Measures Adjusting Event | has the meaning given to it in Part C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). |
| Output Substitution (OS) | has the meaning given to it by Part B of Special Condition 3L (Pre-construction Engineering outputs for prospective Strategic Wider Works). |
| Participating Interest | has the meaning given in section 421A of the Financial Services and Markets Act 2000. |
| Participating Owner | for the purposes of the definition of “Associate”, a person is subject to a Participating Interest by another person (a “Participating Owner”) if: <ul style="list-style-type: none"> (a) that other person holds a Participating Interest in the person; or |

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| | (b) the person is subject to a Participating Interest by a person who is himself subject to a Participating Interest by that other person. |
| PCFM Variable Values Table | means the table on the Input sheet of the ET1 Price Control Financial Model for the licensee which has: <ul style="list-style-type: none"> (a) column headings for: <ul style="list-style-type: none"> (i) PCFM Variable Value names; (ii) Special Condition numbers; (iii) unit designations; and (iv) Relevant Years; (b) a row relating to each PCFM Variable Value specified in this licence; and (c) a range of blue coloured cells containing the PCFM Variable Values specified in this licence. |
| PE Output Substitution | means an OS applied, or to be applied, to a PE Output specified in Part A of Special Condition 3L (Pre-construction Engineering Outputs for prospective Strategic Wider Works). |
| Pension Protection Fund | has the meaning given in the Glossary of the ET1 Price Control Financial Handbook. |
| Pension Scheme Administration | has the meaning given in the Glossary of the ET1 Price Control Financial Handbook. |
| Pension Scheme Established Deficit | has the meaning given in the Glossary of the ET1 Price Control Financial Handbook. |
| Period p | means the period 1 April 2011 to 31 March 2013. |
| Power Station | shall have the same meaning as is given to that term in the Grid Code. |
| Pre-construction Engineering (PE) | for the purposes of Special Condition 3L (Pre-construction Engineering outputs for prospective Strategic Wider Works Outputs) means the initial activities undertaken by the licensee to develop the technical design plans and obtain the necessary planning or development consents in preparation for constructing a Strategic Wider Works Output on the National Electricity Transmission System. |

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| Pre-construction Engineering (PE) Outputs | means the deliverables required in connection with the pre-construction engineering activities necessary to prepare a feasible, economical and efficient technical design for a prospective Strategic Wider Works. These outputs are likely to include: (a) routing, siting and optioneering studies; (b) environmental assessments; (c) project design studies and selection; (d) technical specifications for cost tenders; and/or (e) planning and/or development consents. |
| Pre-existing Transmission Infrastructure | for the purposes of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas) means transmission infrastructure assets forming part of the licensee's Transmission System on 1 April 2013. |
| Price Control Period | means the period of eight years beginning on 1 April 2013 and ending on 31 March 2021 during which subject to Special Condition 8A (Disapplication), the Special Conditions will have effect in this licence. |
| Project Details | means one or more of the following particulars specified in Appendix 2 to Special Condition 6B (Supplementary provisions in relation to Transmission Asset Owner Incentives Scheme activity in the legacy period) in respect of a given Scheduled Project and referred to in Parts B, C and D of Special Condition 6B: (a) Pre-construction cost allowances; (b) Construction cost allowances; (c) Key project milestones; and (d) Forecast output measures. |
| Project Direction | for the purposes of Special Condition 3I (The Network Innovation Competition) means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism. |
| Proven Innovation | for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means an Innovation which the Transmission Owner can demonstrate has been successfully trialled or |

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| | demonstrated either on the network to which this licence relates or elsewhere. |
| Proven SO Innovation | for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means an SO Innovation which the licensee can demonstrate has been successfully trialled or demonstrated in respect of the Balancing Services Activity or elsewhere. |
| Registered Capacity | shall have the same meaning as is given to that term in the Grid Code. |
| Regulatory Asset Value (RAV) | has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook. |
| “RIGs” | means Regulatory Instructions and Guidance pursuant to Standard Condition B15 (Regulatory Instructions and Guidance). |
| Related Undertaking | has the meaning given to that term in Standard Condition A1 (Definitions and interpretation). |
| Relevant Additional Pre-construction Works | means for the purposes of Parts B and C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) an amendment to the scope of the pre-construction works carried out or expected to be carried out by the licensee during the Relevant Year 2012/13 as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of Funded Pre-construction Works on a Scheduled Project (including but not limited to planning consent). |
| Relevant Amendment to the Scope of Construction Works | means, for the purposes of Parts B and C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period), an amendment to the scope of construction works that is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of Funded Construction Works on a Scheduled Project (including but not limited to planning consent). |
| Relevant Generation Capacity | for the purposes of Special Condition 6F (Baseline Generation Connections Outputs and Generation Connections volume driver) is calculated as the sum of the maximum of all individual generation entry capacities in any year during the period from |

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1 April 2013 up to and including Relevant Year t-2 minus the sum of the maximum of all individual generation entry capacities in any year during the period from 1 April 2012 up to and including Relevant Year t-3.

For generation connected to the England and Wales transmission system directly, the generation entry capacity shall be the largest holding or (if greater than the holding) use of entry capacity rights (through any combination of access products) held or used by an individual power station for a total period not less than 5 days during the Relevant Year.

For generation connected to the England and Wales transmission system by an offshore transmission system (and not via a distribution system or the Scottish transmission system), the generation entry capacity shall be the largest holding or (if greater than the holding) use of entry capacity rights (through any combination of access products) held or used by an individual power station for a total period not less than 5 days during the Relevant Year.

For interconnectors, the generation entry capacity will be the largest use of entry capacity rights (through any combination of access products) used by an individual interconnector for a total period not less than 5 days during the Relevant Year.

For embedded generation (in Zones 2 and 22 only as defined in Appendix 1 of Special Condition 6F), the generation entry capacity shall be the sum of the maximum capacities of all half-hourly metered embedded power stations.

Relevant Other Competitive Business

means the business of:

- (a) participating in, or intending to participate in, a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted;
- (b) an Offshore Transmission Owner;
- (c) undertaking carbon capture and storage activities; or

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| Relevant SO Special Conditions | <p>(d) owning and/or operating an entity participating in, or intending to participate in, activities which require a licence under section 6(1)(e) of the Electricity Act 1989.</p> <p>means Special Condition 4A (Restriction of System Operator Internal Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 4A to which a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions) relates.</p> |
| Relevant System Planning Activities | <p>for the purposes of Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) means activities undertaken by the licensee pursuant to:</p> <ul style="list-style-type: none"> <li data-bbox="847 920 1310 1084">(a) standard condition C27 (The Network Options Assessment process and reporting requirements); <li data-bbox="847 1115 1382 1234">(b) paragraph 4(c) of standard condition C6 (Connection charging methodology); <li data-bbox="847 1265 1366 1473">(c) paragraphs 3(c), where relevant to Developer-Associated Offshore Wider Works, 5A and 9A of standard condition C8 (Requirement to offer terms); <li data-bbox="847 1505 1385 1832">(d) standard condition C25 (Provision of information and assistance to the Authority in relation to applications requiring the appointment of an offshore transmission owner), where relevant to Developer-Associated Offshore Wider Works; and <li data-bbox="847 1863 1385 1944">(e) paragraphs 1(bb), 3(e) and 13(aa) of standard condition C11 (Production |

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| Relevant System Planning Information | for the purposes of Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) means all Information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee's employees, agents, contractors and advisors solely by virtue of the performance of Relevant System Planning Activities by the licensee, but excluding all Information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence. |
| Relevant TO Special Conditions | means Special Condition 3A (Restriction of Transmission Network Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 3A to a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions) relates. |
| Relevant User Agreement to Vary | means a bilateral contract between the licensee and user for a modification to an existing grid connection as defined in the CUSC. |
| Relevant User Connection Agreement | for the purposes of Special Condition 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) means a bilateral agreement between the licensee and user for a new grid supply point as defined in the CUSC. |
| Relevant Year | a year beginning on 1 April to which the provisions of this licence apply. |
| Relevant Year d | for the purposes of Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver) means the year in which the circuit is forecast to achieve, or actually achieves stage 2 commissioning. |
| Relevant Year t | for the purposes of the Special Conditions in Chapters 5, 6, and 7, means the Relevant Year in which the values for the terms MOD and SOMOD, calculated through a particular Annual Iteration Process, are used in the formulae set out |

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in Special Condition 3A (Restriction of Transmission Network Revenue) and Special Condition 4A (Restriction on System Operator Internal Revenue) respectively and references to Relevant Year t-1 and Relevant Year t-2 are to be construed accordingly. For the purposes of Special Conditions 4C (Balancing Services Activity Revenue Restriction on External Costs) to 4K (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs) inclusive Relevant Year t means that Relevant Year for the purposes of which any calculation falls to be made and references to Relevant Year t-1 and t-2 are to be construed accordingly.

Replacement Priority

means the category assigned to an asset to prioritise the requirement for intervention (replacement, refurbishment or reconditioning) based on a measure of its asset health and criticality in terms of consequences of failure.

Retail Prices Index

means: a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances.

Retail Prices Index Forecast
Growth Rate

means: a) the growth rate (for the avoidance of doubt the growth rate is presented as a percentage) as defined as the “New forecasts (marked *)” in the HM Treasury “Forecasts for the UK Economy” publication, published in November each year; or b) if that growth rate in respect of any year has not been published, such growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that growth rate, such other growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances.

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| Returned Royalty Income | has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition). |
| Returned Project Revenues | has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition). |
| RIIO Principles | means the principles for the assessment of business plans set out in the document entitled “Decision on strategy for the next transmission price control” (Ref 47/11) published on 31 March 2011. |
| Roll-out | for the purposes of Special Condition 6E (The Innovation Roll-out Mechanism) means the incorporation of a Proven Innovation into an Ordinary Business Arrangement. |
| Scheduled Project | means a Transmission Investment Incentives Project for which Project Details are specified in Appendix 2 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) in respect of Funded Pre-construction Works and/or Funded Construction Works. |
| Security Period | for the purposes of Special Condition 3K (Allowances in respect of a Security Period) means a period commencing on the date on which any direction issued by the Secretary of State under section 34(4) of the Act enters into effect and terminating on the date (being not earlier than the date such direction, as varied, is revoked or expires) as the Authority, after consultation with such persons (including, without limitation, licence holders liable to be principally affected) as it shall consider appropriate, may with the consent of the Secretary of State by notice to all licence holders determine after having regard to the views of such persons. |
| Shared Services | for the purposes of Special Condition 2O (Business separation requirements and compliance |

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| | obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) means shared corporate services as specified in the compliance statement. |
| Site-Specific Charges | means charges defined in Schedule Ten of the STC. |
| SO Capex Rolling Incentive | means the mechanism giving rise to the adjustment term IncPayEXt in Special Condition AA5A of this licence in the form it was in on 31 March 2013. |
| SO Methodologies | means the documented explanation of the methods, principles and assumptions that the licensee will apply for the purposes of using the SO Models to determine the value of the term “Modelled Target Costs _m ” in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs). |
| SO Models | means the tools used by the licensee to forecast costs incurred by the licensee in carrying out the Balancing Services Activity and to determine the value of the term “Modelled Target Costs _m ” in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs). |
| SO Opening Base Revenue Allowance | means the value of base revenue determined by the Authority and as set out in Appendix 1 of Special Condition 4A (Restriction of System Operator Internal Revenue). |
| SO Regulatory Asset Value | means the financial balance representing expenditure by the licensee in respect of the System Operator part of its transmission business which has been capitalised under regulatory rules. The licensee receives a return and depreciation on its combined TO and SO RAV balances in its price control allowed revenues. |
| SO Roll-out | for the purposes of Special Condition 4J (The System Operator Innovation Roll-out Mechanism) means the incorporation of a Proven SO Innovation into an Ordinary SO Business Arrangement. |
| SO Totex | has the meanings given to those terms in the methodology in chapter 6 of the ET1 Price Control Financial Handbook. |
| SO Totex Capitalisation Rate | has the value provided in the table in Appendix 1 of Special Condition 7B (Determination of PCFM |

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| | Variable Values for Totex Incentive Mechanism Adjustments – System Operator). |
| Specified Information | has the meaning given in Standard Condition B15 (Regulatory Instructions and Guidance). |
| Stakeholder | for the purposes of Special Condition 3D (Stakeholder Satisfaction Outputs) refers to the general body of persons (including but not limited to Customers or other actual users of the licensee’s network) who are affected by or have an interest in the licensee’s operations. |
| Stakeholder Engagement Reward | means the reward provided for in Part B of Special Condition 3D (Stakeholder Satisfaction Output). |
| Stakeholder Engagement Reward Guidance | means the associated document provided for under Special Condition 3D (Stakeholder Satisfaction Output). |
| Stakeholder Satisfaction Output | means the term defined in Part A of Special Condition 3D (Stakeholder Satisfaction Output). |
| Stakeholder Satisfaction Survey | means an annual survey of stakeholders carried out consistently with the provisions of Special Condition 3D (Stakeholder Satisfaction Output). |
| Strategic Wider Works Output(s) | means a specific programme of Wider Works the licensee plans to deliver where such works are approved by the Authority and specified as a Strategic Wider Works Output in Table 3 in Part A of Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure). |
| System Operator (SO) | has the meaning given to the term in Standard Condition A1 (Definitions and interpretation). |
| System Operator Functions | for the purposes of Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) means the activities of the licensee pursuant to the obligations under Section C of this licence, for which there are no equivalent obligations under Section D or Section E, of the standard licence conditions contained in an electricity transmission licence |
| TII Actual Allowance | means the total capital expenditure allowance in respect of Transmission Investment Incentives Projects, expressed in 2009/10 prices, determined |

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| | by the Authority for a given TII year, and shall take the value specified in Table 1 of Appendix 1 to Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) which is derived from the sum of the TII Initial Allowance and the TII Allowance Adjustment for the same TII year. |
| TII Allowance Adjustment | means the variable component of the TII Actual Allowance for a given TII Year and shall take the value specified in Table 2 of Appendix 1 to Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) for the same TII Year. |
| TII Asset Value Adjusting Event (TII AVAE) | means an event as described in Part B of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). |
| TII Assumed Allowance | means the total capital expenditure allowance in respect of Transmission Investment Incentives Projects, expressed in 2009/10 prices, that was assumed by the Authority in the legacy period for the purposes of setting the licensee's allowed revenue for a given TII Year, and taking the value specified in Table 1 of Appendix 1 of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). |
| TII Initial Allowance | means the fixed component of the TII Actual Allowance for a given TII Year and shall take the value specified in Table 2 of Appendix 1 to Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) for the same TII Year. |
| TII Output Measures Adjusting Event (TII OMAE) | means an event as described in Part C of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). |
| TII Provisional Revenue Adjustment Term | means the provisional revenue adjustment term for the financial year 2012/13 (in 2009/10 prices) in respect of the application of the capital expenditure incentive regime on the difference |

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between expenditure incurred and total capital expenditure allowance in respect of scheduled projects for the years 2009/10 and 2010/11, that was taken into account by the Authority in the legacy period for the purposes of setting the licensee's allowed revenue for the financial year 2012/13.

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| TII Year | means any financial year commencing 1 April 2009, 1 April 2010, 1 April 2011, or 1 April 2012. |
| Time Value of Money Adjustment | has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook. |
| TIRG Relevant Year | <p>means, in relation to each transmission investment project <i>i</i> specified in Annex A of Special Condition 3J (Transmission Incentive for Renewable Generation), the Relevant Year in which a revenue allowance falls to be made under Special Condition 3J (Transmission Incentive for Renewable Generation) with respect to that transmission investment project <i>i</i> where:</p> <ul style="list-style-type: none">(a) $t=p$ means the Relevant Year commencing on 1 April 2005;(b) $t=p$ to $t=-1$ means the preconstruction period (where $p \leq -1$);(c) $t=0$ means the Relevant Year in which construction of that transmission project <i>i</i> commences;(d) $t=0$ to $t=n$ means the construction period;(e) $t=n$ means the Relevant Year in which that transmission investment project <i>i</i> is commissioned; <p>$t=n+1$ means the Relevant Year in year 1 post commissioning period for that transmission investment project <i>i</i> and similar expressions shall be construed accordingly.</p> |
| TO Regulatory Asset Value | means the financial balance representing expenditure by the licensee in respect of the Transmission Owner part of its transmission business which has been capitalised under regulatory rules. The licensee receives a return and depreciation on its combined TO and SO RAV balances in its price control allowed revenues. |

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| Totex | has the meaning given in the methodology in chapter 6 of the ET1 Price Control Financial Handbook. |
| Totex Capitalisation Rate | has the meaning given in the glossary of the ET1 Price Control Financial Handbook. |
| Totex Incentive Mechanism | (f) has the meaning given to this term in the methodology in chapter 6 of the ET1 Price Control Financial Handbook. |
| Totex Incentive Mechanism Adjustment | has the meaning given to those terms in the methodology in chapter 6 of the ET1 Price Control Financial Handbook. |
| Totex Incentive Strength Rate (TO) | means the incentive rate for the licensee set out in Appendix 1 of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments-Transmission Owner) and in Appendix 1 to Special Condition 6H (Arrangements for the recovery of uncertain costs). |
| Totex Incentive Strength Rate (SO) | means the incentive rate for the licensee set out in Appendix 1 to Special Condition 7D (Arrangements for the recovery of SO uncertain costs). |
| Transmission Area | has the meaning given to this term in Standard Condition A1 (Definitions and interpretation). |
| Transmission Business | has the meaning given to this term in Standard Condition A1 (Definitions and interpretation). |
| Transmission Business Activities | means the following activities of the licensee, in each case to the extent applicable: (a) the Transmission Owner Activity; and (b) the System Operator Activity, where System Operator Activity means the Balancing Services Activity, as that term is defined in standard condition C1 (Interpretation of Section C). |
| Transmission Constraints | has the meaning given in Standard Condition C16 (Procurement and use of balancing services). |
| Transmission Investment Incentives Projects | means a transmission investment project for which project-specific capital expenditure allowances in respect of one or more TII years are set out in the Appendices to Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme |

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| | activity in the legacy period) and are reflected in the provisions of that condition. |
| Transmission Investment for Renewable Generation (TIRG) | means the term TIRG, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation). |
| Transmission Licence | has the meaning given to this term in Standard Condition A1 (Definitions and interpretation). |
| Transmission Licensee | has the meaning given to this term in Standard Condition A1 (Definitions and interpretation). |
| Transmission Losses | means the units of electricity unaccounted for on the licensee's Transmission System. Unless specified in paragraph 2K.3 (a) of Special Condition 2K (Electricity Transmission Losses reporting), the licensee may estimate "Transmission Losses" using the licensee's own calculations. |
| Transmission Network Charges | means charges levied by the licensee in respect of the provision of Transmission Network Services. |
| Transmission Network Revenue | means the aggregate of revenue in the Relevant Year derived by the licensee from the provision of Transmission Network Services and from remote transmission asset rentals. |
| Transmission Network Revenue Restriction | means such parts of Special Conditions 6A (Legacy price control adjustments – Transmission Owner) to 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11 or 15 of the Act. |
| Transmission Network Services | has the meaning given to this term in Standard Condition A1 (Definitions and interpretation). |
| Transmission Owner (TO) | has the meaning given to this term in Standard Condition A1 (Definitions and interpretation). |
| Transmission Owner Activity | has the meaning given to the term in Standard Condition C1 (Interpretation of Section C). |
| Transmission Owner Services | means all services provided as part of the Transmission Business other than Excluded Services. |
| Transmission System | has the meaning given to this term in Section 4(4) of the Act. |

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| Underground Cabling | for the purposes of Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver) means the laying of transmission circuits directly in the ground instead of being strung overhead on towers. |
| Unrecoverable Expenditure | for the purposes of Special Condition 3H (The Network Innovation Allowance) means expenditure on a NIA project the Authority has determined does not satisfy the requirements of the NIA Governance Document. |
| Use of System Charges | has the meaning given to the term in Standard Condition C1 (Interpretation of Section C). |
| Vanilla Weighted Average Cost of Capital | has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook. |
| Warming | means any actions taken by the licensee to ensure that a generator is able to provide a Black Start service where it would not otherwise be available to do so. |
| Wider Works (WW) | means transmission reinforcement works that are designed to reinforce or extend the National Electricity Transmission System in order to make it compliant with the terms of the National Electricity Transmission System Security and Quality of Supply Standard (or such other standard of planning and operation as the Authority may approve from time to time and with which the licensee may be required to comply in accordance with Standard Condition C17 (Transmission system security standard and quality of service)). |
| Work Force Renewal Costs | means costs incurred, or expected to be incurred, by the licensee in recruitment and training to ensure a sustainable work force that are not included in allowed totex or recoverable through another Special Condition. |

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Special Condition 1B.Transmission Area

1. The transmission area comprises:

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

2. For the purpose of this condition:

- “the Western HVDC Link”
- (i) means the high voltage electric lines and electrical plant which comprise the following components:
 - (a) a High Voltage Direct Current (HVDC) cable, the sole purpose of which is to transmit electricity between the transmission area of SP Transmission Limited (SPTL) and that part of the licensee’s transmission area specified in paragraph 1(a) above via an onshore and subsea corridor the route of which extends, in part, outwith Great Britain, the territorial sea adjacent to Great Britain and any Renewable Energy Zone;
 - (b) convertor stations at either end of the HVDC cable described in (a) above to facilitate the conversion of power from

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Direct Current (DC) in the HVDC cable to Alternating Current (AC) in the national electricity transmission system; and

- (c) cables to connect each converter station described in (b) above to an appropriate substation in each of the licensee's transmission area and SPTL's transmission area respectively.
- (ii) does not transmit electricity for the purposes of offshore transmission as defined in the Electricity Act 1989 as a whole (as amended from time to time).

Special Condition 1C. Amended standard conditions

1. Standard condition A1 (Definitions and interpretation) shall be amended
 - (a) by the addition of the following text between the definitions of "relinquishment of operational control" and "Retail Price Index":

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

- (a) are embedded in a distribution system of an authorised electricity operator within the transmission area of the licensee and are not directly connected by lines or plant owned by the licensee to a sub-station owned by the licensee and
- (b) are, by agreement between the licensee and such authorised electricity operator, operated under the direction and control of such authorised electricity operator.

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

"EMR functions" has the same meaning as in Chapter 5 of Part 2 of the Energy Act 2013

2. Standard condition A1 (Definitions and interpretation) shall be amended as follows:
 - (a) by the addition of the following text after "and includes" in the definition of "distribution system": "remote transmission assets (owned by the licensee within England and Wales) operated by such distributor and any";
 - (b) by the addition of the following text at the end of the definitions of "GB transmission system" and "national electricity transmission system": "but shall not include any remote transmission assets";
 - (c) by the omission of the full stop and the addition of the following text at the end of subsection (c) in the definition of "permitted purpose";
“; and (d) the EMR functions.”
 - (d) in the definition of "transmission business":
 - (aa) not used;

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- (bb) not used;
- (cc) the words "or commercial management" shall be inserted after "maintenance";
- (dd) the words "the transmission owner activity," shall be inserted before "the balancing services activity"; and
- (ee) not used.

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

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

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

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

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

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

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

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

"transmission owner activity"

means

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

(ii) excluded services.

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

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

Chapter 2: General Obligations

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Special Condition 2A. Activities restrictions

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

Special Condition 2B. Restriction on the use of certain information

1. This condition applies where the licensee has received an application for connection pursuant to paragraph 1(b) of standard condition C8 (Requirement to offer terms) from any person (the “applicant”), in relation to a possible connection to the National Electricity Transmission System in an area which is outside the licensee’s Transmission Area.
2. Where this condition applies, any information which the licensee receives from another transmission licensee relating to the design or construction of that possible connection or relating to financial matters associated with that possible connection or any information which is derived from such information (but in each case excluding any such information which the licensee has properly received or will properly receive through another means) shall, for the purposes of this condition and Special Condition 2H (Appointment of a compliance officer) and until such time as the licensee accepts the TO offer relating to that possible connection or the applicant accepts an alternative offer made by the licensee and there are no outstanding alternative offers in respect of that TO offer, be confidential information.
3. Subject to paragraph 4, the licensee shall ensure that any confidential information is not disclosed to or used by those of its employees, agents, advisers, consultants or contractors who are responsible for, or are otherwise involved in any way in, the preparation of any alternative offer for or the making of any alternative offer to the applicant. The licensee shall further ensure that such of its employees, agents, advisers, consultants or contractors who are preparing an offer for the applicant dealing with such confidential information shall not have access to any information derived from or relating to any alternative offer or alternative offers being prepared for or which have been made to the applicant in relation to a possible connection or possible connections to any part of the National Electricity Transmission System which falls within the licensee’s Transmission Area.
4. Paragraph 3 shall not (or no longer) apply if and to the extent that:
 - (a) the employees, agents, advisers, consultants or contractors who are responsible for, or are otherwise involved in, the preparation of an alternative offer are required to have access to the confidential information (or any part thereof) by virtue of any requirement of law;
 - (b) the employees, agents, advisers, consultants or contractors who are dealing with the confidential information (or any part thereof) are required to have access to any alternative offer (or any part thereof) by virtue of any requirement of law;
 - (c) the relevant Transmission Licensee has notified (or otherwise agreed with) the licensee that the information referred to in paragraph 2 (or any part thereof) need not be treated as confidential for the purposes of this condition or Special Condition 2H (Appointment of a compliance officer);
 - (d) any employees, agents, advisers, consultants or contractors are required to have access to both the confidential information (or any part thereof) and any alternative

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offer solely in connection with the financial sanctioning or final approval of an offer to be made to the applicant in accordance with standard condition C8 (Requirement to offer terms), provided that where following such access the licensee (or any employee, agent, adviser, consultant or contractor of the licensee on its behalf) amends any aspect of any offer to the applicant, such modification shall be notified to the Compliance Officer appointed in accordance with Special Condition 2H (Appointment of a compliance officer); or

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

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

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

- 6. In this condition

“alternative offer”

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

- (a) it relates to a connection to the National Electricity Transmission System at a location which is within the licensee’s Transmission Area; and
- (b) the applicant (whether by one or more applications):
 - (i) has applied to connect to the National Electricity Transmission System at more than one location, at least one of which is located outside the licensee’s Transmission Area; or
 - (ii) is willing to consider a connection to the National Electricity Transmission System at more than one location, at least one of which locations is outside the licensee’s Transmission Area; and
- (c) the licensee knows or it is reasonable for the licensee to assume that the applicant does not intend to connect to the National Electricity

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Transmission System at all the locations at which the applicant has requested an offer for connection and that it intends to choose to connect at one or more locations on the basis of the offers it receives,

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

- "applicant"** has the meaning given to that term in paragraph 1.
- "confidential information"** has the meaning given to that term in paragraph 2.

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

Prohibited Activities

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

Conduct of the Transmission Business

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

obtains no unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an

advantage accruing to the licensee, one in connection with a business other than its transmission business.

Special Condition 2D. Not used

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Special Condition 2E. Not used

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

Part A: Purpose

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

Part B:

2-5: Not Used

Part C:

6-19: Not Used

Part D:

20: Not Used

Part E: Offshore transmission report

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

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transmission report and/or the frequency with which the licensee shall be required to deliver the offshore transmission report to the Authority. The Authority may not direct that the licensee shall deliver the offshore transmission report to it more frequently than once in each month.

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

26. The licensee shall until 31 March 2021 (or such earlier date as the Authority may direct), provide to the Authority, by 1 December in each year, a certificate signed by the Single Appointed Director (appointed pursuant to Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) certifying that the information in the offshore transmission reports delivered to the Authority in the previous twelve months is fair and accurate.

27. In this condition:

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

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

1. The licensee shall not, in meeting its obligations under this licence, unduly discriminate as between or unduly prefer any other transmission licensee or transmission licensees or unduly prefer itself over any other transmission licensee or transmission licensees.
2. When determining whether to use or refrain from using services provided by another transmission licensee pursuant to that other transmission licensee's transmission licence, the licensee shall apply the same or equivalent factors (and shall, in applying such factors, take into account any information available to it) that it applies when considering whether to undertake (or to refrain from undertaking) equivalent activities in its transmission area.
3. On notification by the Authority, the licensee shall keep and maintain such records concerning its compliance with this condition as are in the opinion of the Authority sufficient to enable the Authority to assess whether the licensee is complying with this condition and as are specified in any such notification, and the licensee shall furnish to the Authority such records (or such of these as the Authority may require) in such manner and at such times as the Authority may require.

Special Condition 2H. Appointment of a Compliance Officer

1. The licensee shall prepare a statement in a form approved by the Authority describing the means by which the licensee shall ensure that Special Condition 2B (Restriction on use of certain information) is complied with.
2. The licensee may periodically revise the description set out in and, with the approval of the Authority, alter the form of the statement prepared in accordance with paragraph 1 and shall, at least once every year during which this licence is in force, review such statement in order that the description set out therein shall continue to be accurate in all material respects.
3. The licensee shall send a copy of the statement prepared in accordance with paragraph 1, and of each revision of such statement in accordance with paragraph 2, to the Authority and shall publish a copy of such statement and each such revision in such a way as to ensure that such statement and each such revision is likely to be brought to the attention of any person who may be affected by it or by each of them.
4. The licensee shall, following consultation with the Authority, appoint a competent person (who shall be known as the "Compliance Officer") for the purpose of facilitating compliance by the licensee with this condition and with Special Condition 2B (Restriction on use of certain information).
5. The licensee shall at all times engage the services of the Compliance Officer for the performance of such duties and tasks as the licensee considers it appropriate to assign to him for the purposes specified at paragraph 4, which duties and tasks shall include those set out at paragraph 8.
6. The licensee shall procure that the Compliance Officer:
 - (a) is provided with such staff, premises, equipment, facilities and other resources; and
 - (b) has such access to its premises, systems, information and documentationas, in each case, he might reasonably expect to require for the fulfilment of the duties and tasks assigned to him.
7. The licensee shall make available to the Compliance Officer a copy of any complaint or representation received by it from any person in relation to any of the means adopted by the licensee in accordance with the statement referred to at paragraph 1.
8. The duties and tasks assigned to the Compliance Officer shall include:
 - (a) providing relevant advice and information to the licensee for the purpose of ensuring its compliance with the relevant duties;
 - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee in accordance with the statement referred to at paragraph 1;

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- (c) investigating any complaint or representation made available to him in accordance with paragraph 7;
 - (d) investigating any notification made to it under paragraph 4(d) of Special Condition 2B (Restriction on the use of certain information) to ensure compliance with Special Condition 2G (Prohibition on engaging in preferential or discriminatory behaviour);
 - (e) recommending and advising upon the remedial action which any investigation under paragraph (c) or (d) has demonstrated to be necessary or desirable;
 - (f) providing relevant advice and information to the licensee for the purpose of ensuring its effective implementation of:
 - (i) the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1; and
 - (ii) any remedial action recommended in accordance with sub-paragraph (e); and
 - (g) reporting annually to the directors of the licensee - in respect of the year ending 31 December 2005 and of each subsequent year - as to his activities during the period covered by the report, including the fulfilment of the other duties and tasks assigned to him by the licensee.
9. As soon as is reasonably practicable following each annual report of the Compliance Officer, the licensee shall produce a report:
- (a) as to its compliance during the relevant year with the relevant duties; and
 - (b) as to its implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1.
10. The report produced in accordance with paragraph 9 shall in particular:
- (a) detail the activities of the Compliance Officer during the relevant year;
 - (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1; and
 - (c) set out the details of any investigations conducted by the Compliance Officer, including:
 - (i) the number, type and source of the notifications, complaints or representations on which such investigations were based;
 - (ii) the outcome of such investigations; and
 - (iii) any remedial action taken by the licensee following such investigations.

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

12. In this condition:

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

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

Special Condition 2I. Not used

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Special Condition 2J. Network Access Policy

Introduction

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

Part A: Licensee’s obligations in relation to the NAP

- 2J.3 The licensee must, no later than 30 days after 1 April 2013, submit a NAP for the Authority’s approval. Following approval for the Price Control Period the licensee must have in place a NAP that:
- (a) has been approved by the Authority following consultation with electricity Transmission Licensees and such other interested parties as the Authority considers appropriate; and
 - (b) conforms to the requirements set out in Part B of this condition.
- 2J.4 The licensee must maintain the NAP approved under paragraph 2J.3(a) in accordance with Part C of this condition.
- 2J.5 Approval by the Authority under paragraph 2J.3(a) may be subject to such conditions requiring further action to be undertaken by the licensee in relation to the NAP as the Authority considers appropriate.
- 2J.6 The licensee must incorporate the NAP into its planning and operations within its licensed activities. It must act consistently with the NAP, subject to the need to ensure the safe and secure operation of the NETS as a whole or any part of it.

Part B: Essential requirements of the NAP

- 2J.7 The NAP that is in place under this condition must include and/or make provision for:
- (a) details of the actions that the licensee’s Transmission Owner Activity will take to coordinate with the System Operator’s balancing services activity and/or other Transmission Owners as appropriate to ensure that planned

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network outage arrangements are agreed with due consideration of the long term outcomes for consumers and network users;

- (b) details of the actions that the licensee will take for the purposes of responding to and managing unplanned network outages with a view to minimising their contribution to network constraints subject to the need to ensure the safe and secure operation of the NETS as a whole or any part of it;
- (c) details of the types of circumstances that are likely to require an alternative approach to that set out in relation to paragraphs 2J.7(a) and (b); and
- (d) a description of the licensee's communication and coordination strategy for interacting with the System Operator's balancing services activity in respect of matters relating to the NAP.

Part C: Procedure for amending the NAP

- 2J.8 The licensee must from time to time and at least once in every two years while this licence is in force, review and make such amendments as may be necessary to the NAP in order to ensure that the information contained in it continues to be accurate and consistent with this condition.
- 2J.9 Where the licensee proposes to amend the NAP, it must provide a full statement to the Authority of the proposed amendments and provide a copy of that statement to the System Operator's balancing services activity and other Transmission Licensees.
- 2J.10 The statement to which paragraph 2J.9 of this condition refers, must include an explanation of the reasons for the proposed amendment, together with such supporting evidence as the licensee considers will assist the Authority in its consideration of the proposed amendment.
- 2J.11 The Authority's consideration of the proposed amendment will include consideration of any other submission.
- 2J.12 The licensee must supply all relevant information relating to the NAP within such period of time as the Authority may reasonably request for the purpose of enabling it to consider the licensee's proposed amendment to the NAP.
- 2J.13 The Authority (following consultation with the licensee and such other interested parties as it considers appropriate) may:
 - (a) approve the proposed amendment, subject, where necessary, to such conditions requiring further action to be undertaken by the licensee in relation to the NAP as the Authority considers appropriate; or
 - (b) reject the proposed amendment (and, where appropriate, give recommendations as to alternative amendments which it considers ought to be made).
- 2J.14 Where approved by the Authority, the amended NAP both supersedes and revokes (with effect from such date as may be specified in the NAP) any previous version of the NAP in place under this condition.
- 2J.15 In the event that the Authority approves an amendment to the NAP under the procedure set out in Part C, the licensee must ensure that the NAP made available under paragraph

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2J.16 is updated within 5 working days of the Authority granting approval under paragraph 2J.13(a).

Part D: Availability of the NAP

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

- (a) is published on, and readily accessible from its website; and
- (b) is otherwise available to any person who requests it upon payment of an amount (if any) that does not exceed the reasonable costs of making and supplying that copy.

Special Condition 2K. Electricity Transmission Losses reporting

Introduction

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

Part A: Reporting requirements in relation to Transmission Losses

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

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

- (a) a description of the methodology used by the licensee to take Transmission Losses into account when planning load related reinforcements to the licensee's Transmission System;
- (b) a description of the licensee's methodology to take Transmission Losses into account when the licensee is planning non-load related asset replacement programmes on the licensee's Transmission System;
- (c) a description of how the licensee determines the optimal specifications in relation to Transmission Losses arising from the operation of new equipment in its asset procurement processes;
- (d) a summary of key developments to the licensee's Transmission System and estimates of the impacts those developments will have on Transmission Losses on the licensee's Transmission System;
- (e) a summary of the licensee's asset replacement programmes and estimates of the impacts those programmes will have on Transmission Losses on the licensee's Transmission System; and
- (f) a description of the potential application of new and alternative technologies to the licensee's Transmission System during the Price Control Period and the impact these technologies may have in relation to Transmission Losses.

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

- (a) the level of Transmission Losses from the licensee's Transmission System, measured as the difference between the units of electricity metered on entry to the licensee's Transmission System and the units of electricity metered on leaving that system;

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- (b) a progress report on the implementation of the licensee's strategy under paragraph 2K.2, including the licensee's estimate of the contribution to minimise Transmission Losses on the licensee's Transmission System that has occurred as a result; and
- (c) any changes or revisions the licensee has made to the strategy in accordance with paragraph 2K.2 of this condition.

2K.5 The strategy under paragraph 2K.2 of this condition and the report under paragraph 2K.4 of this condition must contain or be accompanied by a description of any calculations the licensee has used to estimate Transmission Losses on the licensee's Transmission System.

Special Condition 2L. Methodology for Network Output Measures

Introduction

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

Part A: Licensee's general obligations under this condition

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

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

Part B: The NOMs Methodology Objectives

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

- (a) the monitoring of the licensee's performance in relation to the development, maintenance and operation of an efficient, co-ordinated and economical system of electricity transmission;
- (b) the assessment of historical and forecast network expenditure on the licensee's Transmission System;
- (c) the comparative analysis of performance over time between:
 - (i) geographic areas of, and Network Assets within, the licensee's Transmission System;
 - (ii) the licensee's Transmission System and other Transmission Systems forming part of the National Electricity Transmission System;
 - (iii) the National Electricity Transmission System and Transmission Systems outside Great Britain; and
 - (iv) the National Electricity Transmission System and Distribution Systems within Great Britain;

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- (d) the communication of relevant information about the licensee’s Transmission System to the Authority and other interested parties in an accessible and transparent manner; and
- (e) the assessment of customer satisfaction derived from the services provided by the licensee as part of its Transmission Business.

Part C: The NOMs methodology

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

- (a) the network assets condition measure, which relates to the current condition of the Network Assets, the reliability of the Network Assets, and the predicted rate of deterioration in the condition of the Network Assets, which is relevant to assessing the present and future ability of the Network Assets to perform their function;
- (b) the network risk measure, which relates to the overall level of risk to the reliability of the licensee’s Transmission System that results from the condition of the Network Assets and the interdependence between the Network Assets;
- (c) the network performance measure, which relates to those aspects of the technical performance of the licensee’s Transmission System that have a direct impact on the reliability and cost of services provided by the licensee as part of its Transmission Business;
- (d) the network capability measure, which relates to the level of the capability and utilisation of the licensee’s Transmission System at entry and exit points and to other network capability and utilisation factors; and
- (e) the Network Replacement Outputs, which are used to measure the licensee’s asset management performance as required in Special Condition 2M (Specification of Network Replacement Outputs).

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

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

Part D: Implementation of the NOMs Methodology

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

- (a) information (whether historic, current, or forward-looking) about the Network Output Measures; supported by
- (b) such relevant other data and examples of network modelling, as may be specified for the purposes of this condition in any Regulatory Instructions and Guidance (“RIGs”) that have been issued by the Authority in accordance with

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the provisions of Standard Condition B15 (Regulatory Instructions and Guidance).

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

Part E: Modification of the NOMs Methodology

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

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

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

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

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

- (a) a statement of the proposed modification to the NOMs Methodology;
- (b) a full and fair summary of any representations that were made to the licensee pursuant to paragraph 2L.10(a) of this condition and were not withdrawn;
- (c) an explanation of any changes that the licensee has made to its modification proposal as a consequence of representations;
- (d) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NOMs Methodology Objectives;
- (e) a presentation of the data and other relevant information (including historical data, which should be provided, where reasonably practicable, for a period of at least ten years prior to the date of the modification proposal) that the licensee has used for the purpose of developing the proposed modification;
- (f) a presentation of any changes to the Network Replacement Outputs, as set out in the tables in Special Condition 2M (Specification of Network Replacement Outputs), that are necessary as a result of the proposed modification to the NOMs Methodology; and
- (g) a timetable for the implementation of the proposed modification, including an implementation date (which must not be earlier than the date on which the period referred to in paragraph 2L.12 of this condition would expire).

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- 2L.12 Where the licensee has complied with the requirements of paragraphs 2L.10 and 2L.11 of this condition, the licensee must implement the proposed modification to the NOMs Methodology unless the Authority, within 28 days after receiving the report submitted to it under paragraph 2L.10(b) of this condition, issues a direction to the licensee requiring it not to implement the proposed modification.
- 2L.13 The Authority, after consulting with the licensee and any other interested parties, may direct the licensee to modify the NOMs Methodology in such manner, to such extent, and with effect from such time as may be specified in the direction.
- 2L.14 The licensee must comply with the requirements of any direction given to it under paragraph 2L.13 of this condition.

Special Condition 2M. Specification of Network Replacement Outputs

Introduction

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

Part A: Specification of Network Replacement Outputs

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

Table 1: Network Replacement Outputs

| Asset categories | | Units | Asset distribution based on Replacement Priority at 31 March 2021 | | | |
|----------------------|-------------------|-------|-------------------------------------------------------------------|------|------|-------|
| | | | Replacement Priority (where RP1 is highest risk category) | | | |
| | | | RP1 | RP2 | RP3 | RP4 |
| 400KV Network | | | | | | |
| 1 | Circuit Breaker | Units | 6 | 6 | 7 | 1148 |
| 2 | Transformer | Units | 13 | 9 | 31 | 358 |
| 3 | Reactors | Units | 3 | 3 | 2 | 14 |
| 4 | Underground Cable | Km | 7.1 | 0.0 | 10.5 | 283.1 |
| 5 | OHL conductor | Km | 1531 | 1152 | 945 | 7192 |
| 6 | OHL fittings | Km | 1542 | 568 | 913 | 7800 |
| 275KV Network | | | | | | |
| 1 | Circuit Breaker | Units | 21 | 44 | 62 | 466 |
| 2 | Transformer | Units | 25 | 20 | 52 | 262 |
| 3 | Reactors | Units | 3 | 4 | 1 | 12 |
| 4 | Underground Cable | Km | 79.2 | 4.3 | 85.5 | 152.0 |

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| | | | | | | |
|----------------------|-------------------|-------|-----|-----|-----|------|
| 5 | OHL conductor | Km | 102 | 343 | 189 | 2402 |
| 6 | OHL fittings | Km | 132 | 357 | 224 | 2333 |
| 132KV Network | | | | | | |
| 1 | Circuit Breaker | Units | 46 | 84 | 60 | 975 |
| 2 | Transformer | Units | 0 | 2 | 1 | 6 |
| 3 | Reactors | Units | 32 | 27 | 7 | 37 |
| 4 | Underground Cable | Km | 0.0 | 1.5 | 2.6 | 14.5 |
| 5 | OHL conductor | Km | 75 | 54 | 37 | 120 |
| 6 | OHL fittings | Km | 79 | 67 | 0 | 144 |

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

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

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

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

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

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

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

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

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

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

Part C: Principles for determining adjustments to allowed revenue

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

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

| | | |
|------------|-----------|-------------|
| Incentives | Justified | Unjustified |
|------------|-----------|-------------|

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| | | |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Over-delivery | <p>Cost of over-delivery shall be included in the second price control period allowances</p> <p>The financing cost incurred by the licensee in advancing investment shall be reimbursed</p> <p>Reward of 2.5 per cent of the additional costs associated with the material overdelivery</p> | <p>Cost of over-delivery shall be included in the second price control period allowances</p> <p>The licensee shall incur the financing cost of earlier investment</p> |
| Under-delivery | <p>Cost of under delivery shall be excluded from the second price control period allowances</p> <p>The licensee shall benefit from the financing cost of delayed investment</p> | <p>Cost of under delivery shall be excluded from the second price control period allowances</p> <p>The benefit arising to the licensee from the financing cost of delayed investment shall be clawed back</p> <p>Penalty of 2.5 per cent of the avoided costs associated with the material underdelivery</p> |

Part D: Allowed expenditure for Network Replacement Outputs

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

Table 3: Allowed expenditure for Network Replacement Outputs

| Relevant Year | Allowed expenditure (£m 2009/10 prices) |
|---------------|-----------------------------------------|
| 2013/14 | 477.616 |
| 2014/15 | 471.311 |
| 2015/16 | 464.910 |
| 2016/17 | 470.457 |
| 2017/18 | 605.301 |

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| Relevant Year | Allowed expenditure (£m 2009/10 prices) |
|----------------------|----------------------------------------------------|
| 2018/19 | 705.665 |
| 2019/20 | 771.141 |
| 2020/21 | 692.256 |

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Special Condition 2N. Electricity Market Reform

Introduction

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

Part A: Objectives

2N.2 The licensee shall:

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

Part B: Legal and functional separation of National Grid Electricity Transmission plc and Relevant Other Competitive Businesses

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

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

- (a) the Relevant Other Competitive Businesses are conducted entirely by corporate entities which are separate from that of the licensee and the licensee does not, directly or indirectly, hold any shares or other investments:
 - (i) in any corporate entity which conducts any of the Relevant Other Competitive Businesses or which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or any of the assets

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- used in or dedicated to any of the Relevant Other Competitive Businesses; or
- (ii) which give the holder an entitlement to vote at the general meetings of any of the corporate entities which conduct the Relevant Other Competitive Business or in any company which exercises or otherwise has control of any of the Relevant Other Competitive Businesses;
- (b) the licensee's accounts are maintained and to the extent required by law audited and reported separately from those of any corporate entity which conducts Relevant Other Competitive Business;
 - (c) persons engaged in, or in respect of, the management or operation of the licensee (up to and including the members of the senior management team reporting to the licensee's board of directors) are not simultaneously engaged either full or part time in respect of any Relevant Other Competitive Business or any corporate entity which conducts Relevant Other Competitive Business, other than in the provision of Shared Services provided by the licensee to its Associates and the provision of services which constitute de minimis business (as defined in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing)) to the extent that:
 - (i) the provision of those services by the licensee complies with the requirements of Standard Conditions B5 (Prohibition of cross-subsidies), B6 (Restriction on Activity and Financial Ring Fencing) and B9 (Indebtedness); and
 - (ii) except where the Authority consents or directs, persons engaged in, or engaged in respect of, the management or operation of the EMR Functions are not simultaneously engaged in or in respect of a de minimis business as defined in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing);
 - (d) arrangements are in place which are effective in restricting access by persons engaged in, or engaged in respect of, the management or operation of any of the Relevant Other Competitive Businesses to any part of any premises which is occupied by persons engaged in, or in respect of, the management or operation of the licensee including persons engaged in the EMR Functions;
 - (e) the systems for the recording, processing or storage of Confidential EMR Information used by persons engaged in, or engaged in respect of, the management or operation of the licensee's activities (including carrying out the EMR Functions) cannot be accessed by persons engaged in, or engaged in respect of, the management or operation of the Relevant Other Competitive Businesses; and
 - (f) the licensee establishes and maintains in force a code of conduct governing the disclosure of Confidential EMR Information by persons carrying out EMR Functions.

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

- 2N.5 By no later than 7 days after this condition comes into effect, the licensee shall establish an EMR Data Handling Team and shall thereafter operate, supervise and manage the EMR Data Handling Team in a manner compliant with this condition.
- 2N.6 Without prejudice to the generality of paragraph 2N.5, in order to comply with paragraph 2N.5 the licensee shall in particular ensure that at a minimum:
- (a) subject to paragraphs 2N.6A, 2N.13 and 2N.13A, the EMR Data Handling Team shall, in presenting Confidential EMR Delivery Plan Information to a person who is not a member of the EMR Data Handling Team, use all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Delivery Plan Information;
 - (b) each member of the EMR Data Handling Team:
 - (i) signs a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR compliance statement pursuant to paragraph 2N.18(b)(ii); and
 - (ii) complies with a policy set out in the EMR compliance statement governing the transfer of employees into and out of the carrying out of the EMR Functions; and
 - (c) the EMR Data Handling team is supervised and managed by a manager responsible for the control of the Confidential EMR Delivery Plan Information disclosed to persons carrying out the EMR Data Handling Functions, and for ensuring that the EMR Data Handling Team members comply with the obligations in this paragraph 2N.6.
- 2N.6A Paragraph 2N.6(a) shall not apply to the disclosure of Confidential EMR Delivery Plan Information by the EMR Data Handling Team to the EMR Administrative Team where such disclosure is necessary in order to enable the licensee to perform:
- (a) its EMR Function under regulation 23(2) of the Electricity Capacity Regulations 2014 of advising the Secretary of State on whether to adjust the demand curve for a capacity auction; and
 - (b) such other EMR Functions where the Authority has given its prior written consent.
- 2N.6B Subject to paragraphs 2N.13 and 2N.13A, where Confidential EMR Delivery Plan Information is disclosed to the EMR Administrative Team under paragraph 2N.6A, the licensee shall ensure that the EMR Administrative Team does not disclose that information to a person who is not a member of the EMR Administrative Team or the EMR Data Handling Team without having used all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Delivery Plan Information.

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- 2N.7 By no later than 7 days after this condition comes into effect, the licensee shall establish an EMR Administrative Team and shall thereafter operate, supervise and manage the EMR Administrative Team in a manner compliant with this condition.
- 2N.8 The licensee shall ensure that:
- (a) the EMR Administrative Team is responsible for carrying out the EMR Administrative Functions; and
 - (b) subject to paragraphs 2N.8A, 2N.13 and 2N.13A, in presenting Confidential EMR Administrative Information to a person who is not a member of the EMR Administrative Team, the EMR Administrative Team shall use all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Administrative Information.
- 2N.8A Paragraph 2N.8(b) shall not apply to the disclosure of Confidential EMR Administrative Information by the EMR Administrative Team to the EMR Data Handling Team where such disclosure is necessary in order to enable the licensee to perform:
- (a) its EMR Functions under Part 3 (Electricity capacity reports) of the Electricity Capacity Regulations 2014 of preparing, amending and updating an annual capacity report; and
 - (b) such other EMR Functions where the Authority has given its prior written consent.
- 2N.8B Subject to paragraphs 2N.13 and 2N.13A, where Confidential EMR Administrative Information is disclosed to the EMR Data Handling Team under paragraph 2N.8A, the licensee shall ensure that the EMR Data Handling Team does not disclose that information to a person who is not a member of the EMR Data Handling Team or the EMR Administrative Team without having used all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Administrative Information
- 2N.9 The licensee shall ensure that each member of the EMR Administrative Team shall:
- (a) sign a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR compliance statement pursuant to paragraph 2N.18(c)(ii);
 - (b) not be, while a member of the EMR Administrative Team, simultaneously engaged in, or in respect of, any activity of the licensee other than:
 - (i) the performance of EMR Administrative Functions; or
 - (ii) providing assistance to the EMR Data Handling Team to the extent necessary to enable the licensee to perform its EMR Functions where Confidential EMR Administrative Information has been disclosed to the EMR Data Handling Team under paragraph 2N.8A; and

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

- (i) assigned to the EMR Administrative Team for a minimum posting period; and
- (ii) prohibited from engaging in, or in respect of, the management or operation of a Relevant Other Competitive Business at the conclusion of that member's posting.

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

- (a) as may be specified in the EMR compliance statement; or
- (b) to which the Authority has given its prior written consent.

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

Part D: Restrictions on the use of Confidential EMR Information

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

- (a) treat and keep all Confidential EMR Information as confidential;
- (b) ensure that any Confidential EMR Information is not directly or indirectly disclosed to any other person other than as provided in paragraphs 2N.13 and 2N.13A;
- (c) not use any Confidential EMR Information for any purpose other than:
 - (i) performing the EMR Functions;
 - (ii) carrying on the Balancing Services Activity;
 - (iii) any other purpose for which the licensee has obtained prior written consent from the Authority or which is specified in the EMR compliance statement; or
 - (iv) as permitted by regulation 65 of the Electricity Capacity Regulations 2014;

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

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

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

- (a) where required by, or by virtue of, any requirement of law or regulation or by, or by virtue of, the rules of any governmental or other regulatory authority having jurisdiction over the licensee;
- (b) where authorised in advance in writing by the Authority;
- (c) to the extent that the person to whom such Confidential EMR Information relates has consented to such disclosure;
- (d) to such other bodies or persons exercising functions conferred by or under Chapters 2, 3 and 4 of Part 2 of the Energy Act 2013 to the extent that such disclosure is required to enable that body or person to carry out those functions; or
- (e) where such disclosure is permitted by regulation 65 of the Electricity Capacity Regulations 2014.

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

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

and in each case the licensee shall procure that:

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

Part E: EMR Compliance Statement

2N.14 By no later than 30 days after this condition comes into effect, the licensee shall, unless the Authority otherwise consents or directs, at all times have in place and comply with a statement (the “EMR compliance statement”) approved by the Authority, describing the practices,

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procedures and systems by which the licensee will secure compliance with the EMR Relevant Duties.

- 2N.15 Where the Authority does not indicate otherwise within 60 days of receipt of the EMR compliance statement, or any revision thereof, the EMR compliance statement shall be deemed to be approved by the Authority.
- 2N.16 The licensee shall, at least every 12 months or at such other interval as the Authority may direct, review the description set out in the EMR compliance statement and shall revise such EMR compliance statement as necessary to ensure that the description set out in it continues to be complete and accurate in all material respects. The licensee shall alter the EMR compliance statement only with the approval of the Authority.
- 2N.17 The licensee shall send a copy of the EMR compliance statement, and each revision of it as and when it is made, to the Authority. The licensee shall publish a copy of such EMR compliance statement and each revision of it on its website.
- 2N.18 The EMR compliance statement shall in particular (but without prejudice to the generality of paragraphs 2N.14 and 2N.16) set out how the licensee will ensure the confidentiality of:
- (a) Confidential EMR Information by means which shall include, but need not be limited to:
 - (i) compliance with the requirements set out in paragraph 2N.12;
 - (ii) requiring adherence to the code of conduct referred to in paragraph 2N.4(f), by those subject to it, to form part of the licensee's disciplinary policies;
 - (iii) establishing and maintaining a training programme designed to ensure that employees, agents, contractors and advisers receive such initial and continuing training as is necessary to enable the licensee to comply with the requirements of this condition;
 - (iv) ensuring that the persons engaged in the business of any Associate or business of the licensee other than performing the EMR Functions do not have access to any parts of systems for the recording, processing or storage of Confidential EMR Information;
 - (v) ensuring that:
 - (A) any parts of systems used for the recording, processing or storage of:
 - i. Confidential EMR Delivery Plan Information can be accessed only by the EMR Data Handling Team;
 - ii. Confidential EMR Administrative Information can be accessed only by the EMR Administrative Team; and

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- (B) neither Confidential EMR Delivery Plan Information nor Confidential EMR Administrative Information can be accessed by any other persons;
 - (vi) identifying the persons to whom Confidential EMR Information should never be disclosed by reference to the functions of those persons; and
 - (vii) maintaining a list of persons to whom Confidential EMR Information has been disclosed or who have access to Confidential EMR Information (whether on a regular or an occasional basis), a copy of which the licensee shall provide on request to the Authority;
- (b) Confidential EMR Delivery Plan Information by means which shall include, but need not be limited to:
- (i) compliance with the requirements set out in paragraph 2N.12;
 - (ii) establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in 2N.6(b)(i);
 - (iii) establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Delivery Plan Information;
 - (iv) maintaining the EMR Data Handling Team in accordance with paragraphs 2N.6(b)(ii) and 2N.6(c);
 - (v) establishing and maintaining information system security policies; and
 - (vi) establishing and maintaining document management and security policies; and
- (c) Confidential EMR Administrative Information by means which shall include, but need not be limited to:
- (i) compliance with the requirements set out in paragraph 2N.12;
 - (ii) establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in 2N.9(a);
 - (iii) maintaining the EMR Administrative Team in accordance with paragraphs 2N.9(b), 2N.9(c) and 2N.11;
 - (iv) establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Administrative Information;
 - (v) establishing and maintaining information system security policies; and

- (vi) establishing and maintaining document management and security policies.

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

- 2N.19 The licensee shall ensure, following consultation with the Authority, that a competent person (who shall be known as the “EMR compliance officer”) shall be appointed for the purpose of facilitating compliance by the licensee with the EMR Relevant Duties. For the avoidance of doubt, the person appointed as EMR compliance officer pursuant to this paragraph may also hold other compliance officer roles for the licensee or its Associates licensed under the Gas Act 1986.
- 2N.20 The licensee shall appoint a single responsible director (the “Single Responsible Director”) for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the EMR compliance officer set out in paragraph 2N.24 and the licensee’s compliance with its EMR Relevant Duties. The Single Responsible Director shall report to the board of directors of the licensee in relation to the obligations set out in this Special Condition 2N.
- 2N.21 The licensee shall ensure that the EMR compliance officer:
- (a) is provided with such employees, premises, equipment, facilities and other resources; and
 - (b) has such access to the licensee’s premises, systems, information and documentation,
- as, in each case, the EMR compliance officer might reasonably expect to require for the fulfilment of the duties and tasks assigned to the EMR compliance officer pursuant to this Special Condition 2N.
- 2N.22 Except to the extent provided for in paragraph 2N.19, the licensee shall ensure that the EMR compliance officer is not engaged in the management or operation of the Transmission Business, any Associate, other business of the licensee or any Relevant Other Competitive Businesses.
- 2N.23 The licensee shall make available to the EMR compliance officer details of any complaint or representation received by it from any person in respect of a matter arising under or by virtue of the EMR Relevant Duties.
- 2N.24 The duties and tasks of the EMR compliance officer shall include:
- (a) providing advice and information to the licensee (including individual directors of the licensee) and the Single Responsible Director for the purpose of ensuring the licensee’s compliance with the EMR Relevant Duties;
 - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the EMR Relevant Duties and described in the EMR compliance statement;

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

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

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

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

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

- 2N.27 The licensee shall, as soon as reasonably practicable and in any event no later than 14 days after the compliance certificate is approved by a resolution of the board of directors of the licensee as required by paragraph 2N.26(d), submit to the Authority a copy of the report and compliance certificate produced in accordance with paragraph 2N.26, and shall publish copies of each of them on its website.
- 2N.28 The licensee shall, if so directed by the Authority, appoint an Independent Examiner for the purpose of providing a written report to the Authority:
- (a) reviewing the practices, procedures and systems which have been implemented to secure compliance with this condition;
 - (b) assessing the appropriateness of such practices, procedures and systems for securing compliance with the licensee's obligations under this condition; and
 - (c) reporting on the licensee's compliance with the requirements of this condition.
- 2N.29 The Independent Examiner's report shall be provided to the Authority within three working days of the licensee receiving it from the Independent Examiner.
- 2N.30 The Independent Examiner's report shall be commissioned at such intervals as the Authority shall direct.

Part G: General

- 2N.31 Should the licensee cease to perform the EMR Functions:
- (a) paragraphs 2N.12 and 2N.13 shall continue in force to the extent required to protect Confidential EMR Information in accordance with the obligations set out in this condition; and
 - (b) the other obligations under this condition shall remain in force for such time and on such terms as the Authority shall direct in writing.

Part H: Definitions

- 2N.32 In this condition:

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

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

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

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

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

in each case, where such Information is:

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

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

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

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

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

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

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

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

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

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

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

“**Shared Services**” means shared corporate services as specified in the EMR compliance statement.

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

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

Introduction

- 20.1 The purpose of this condition is to set out the business separation requirements between the licensee and the Relevant Other Competitive Businesses, the licensee’s obligations as to its conduct in performing its Relevant System Planning Activities, and the process the licensee must follow to comply with these obligations.
- 20.2 Part A sets out the objectives that the licensee must achieve when undertaking its Relevant System Planning Activities. Part B sets out the business separation requirements between the licensee and the Relevant Other Competitive Businesses. Part C sets out the obligations on the licensee to restrict the use of information that the licensee has access to through its Relevant System Planning Activities. Part D sets out the compliance statement the licensee must publish to describe how it is meeting its specified duties, as defined in paragraph 20.20. Part E sets out requirements on the licensee to appoint an independent compliance officer and annually report on compliance against the licensee’s duties.

Part A: Conduct of the licensee when undertaking its Relevant System Planning Activities

- 20.3 In performing its Relevant System Planning Activities, the licensee must act in a manner intended to secure that neither the licensee, nor any Associate of the licensee, obtains an unfair commercial advantage, including any advantage from a preferential or discriminatory arrangement as a result of the licensee carrying out its Relevant System Planning Activities.

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

- 20.4 The licensee must, in carrying out its licensed activities, put in place and at all times maintain such systems of control and other governance arrangements which are necessary to ensure that the licensee complies with the obligations contained in standard condition B5 (Prohibition of cross-subsidies), standard condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business).
- 20.5 Without prejudice to the licensee's obligations under the conditions referred to in paragraph 20.4 and Special Condition 2N (Electricity Market Reform), the licensee must at all times conduct its licensed activities separately from the Relevant Other Competitive Businesses, provided that nothing in Part B of this condition prevents the licensee from complying with any Section E (Offshore Transmission Owner of Last Resort) Direction made pursuant to standard condition B18 (Offshore Transmission Owner of Last Resort).
- 20.6 The licensee must ensure that the Relevant Other Competitive Businesses are conducted entirely by corporate entities each of which is separate from the licensee and that the licensee does not, directly or indirectly, hold any shares or other investments.
- (a) in any corporate entity which conducts any of the Relevant Other Competitive Businesses or which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or any of the assets used in or dedicated to any of the Relevant Other Competitive Businesses; or
 - (b) which give the holder an entitlement to vote at the general meetings of any of the corporate entities which conduct the Relevant Other Competitive Businesses or in any company which exercises or otherwise has control of any of the Relevant Other Competitive Businesses.
- 20.7 The licensee must ensure that its accounts are maintained and to the extent required by law audited and reported separately from those of any corporate entity which conducts Relevant Other Competitive Business.
- 20.8 The licensee must ensure that persons engaged in the management or operation of the licensee (up to and including the members of the licensee's board of directors ("board")) are not simultaneously engaged, either full or part time, in the management or operation of any Relevant Other Competitive Business or any corporate entity which conducts Relevant Other Competitive Business, other than in the provision of Shared Services provided by the licensee to its Associates and the provision of services which constitute

de minimis business (as defined in standard condition B6 (Restriction on Activity and Financial Ring Fencing)) to the extent that:

- (a) the provision of those services by the licensee complies with the requirements of standard conditions B5 (Prohibition of cross-subsidies), B6 (Restriction on Activity and Financial Ring Fencing) and B9 (Indebtedness); and
- (b) except where the Authority consents or directs, persons engaged in Relevant System Planning Activities are not simultaneously engaged in a de minimis business as defined in standard condition B6 (Restriction on Activity and Financial Ring Fencing).

20.9 The licensee must ensure that arrangements are in place which are effective in restricting access by persons engaged in the management or operation of any of the Relevant Other Competitive Businesses to:

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

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

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

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

20.12 The licensee must ensure that its employees, agents, contractors and advisers ensure that Relevant System Planning Information is not directly or indirectly disclosed to, solicited, or used by any person who is not engaged in System Operator Functions (up to and including the members of the licensee's board of directors), other than as provided for in paragraph 20.13.

20.13 Paragraph 20.12 shall not apply to the disclosure of Relevant System Planning Information:

- (a) where the licensee is specifically required to do so as a condition of this licence;
- (b) as required under the STC;

- (c) to persons engaged in the provision of Shared Services, to the extent necessary to allow them to carry out their respective functions in support of the Relevant System Planning Activities;
- (d) which is required by any requirement of law or regulation, or the rules of any governmental or regulatory authority having jurisdiction over the licensee; or
- (e) where the licensee has obtained prior written consent for such disclosure from the owner(s) of such Relevant System Planning Information, provided that the extent of such disclosure is consistent with the consent obtained.

2O.14 The licensee must ensure that any Relevant System Planning Information received, disclosure of which would in the view of the owner(s) of the information affect their commercial interests, is treated as confidential. Any disclosure of such information must comply with paragraphs 2O.12 and 2O.13.

Part D: Compliance statement and compliance documents

2O.15 By no later than 30 days after this condition comes into effect, the licensee must submit to the Authority:

- (a) a statement (“the compliance statement”), describing the practices, procedures and systems by which the licensee will secure compliance with the specified duties, as defined in paragraph 2O.20;
- (b) the proposed form of the compliance report, as provided for in paragraph 2O.27; and
- (c) the proposed form of the compliance certificate, as provided for in paragraph 2O.28(d).

2O.16 On receipt of the documents provided for in paragraph 2O.15, or any revisions of them, as provided for in paragraph 2O.17(b), the Authority will:

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

2O.17 Following the Authority’s approval of the documents provided for in paragraph 2O.15, the licensee must:

- (a) unless the Authority otherwise consents or directs, at all times comply with the terms of the approved compliance statement; and

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- (b) at least every 12 months, or at such other interval as the Authority may direct, review these documents and revise them as necessary, including when circumstances change such that the documents no longer secure compliance with the specified duties as defined in paragraph 2O.20, to ensure that they continue to be complete and accurate in all material respects. The licensee must submit any revisions made to these documents to the Authority. Any revisions of these documents will only become effective once the Authority has approved them, in accordance with paragraph 2O.16.

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

2O.19 The compliance statement must in particular (but without prejudice to the generality of paragraph 2O.15) set out how the licensee will meet:

- (a) the objectives in Part A of this condition;
- (b) the business separation requirements provided for in Part B, with specific reference to:
 - (i) the arrangements for managerial separation, as required in paragraph 2O.8;
 - (ii) the treatment of Shared Services across the licensee and the Relevant Other Competitive Businesses, together with a list of those services which fall under the definition of Shared Services;
 - (iii) the arrangements to manage the transfer of employees between the licensee and the Relevant Other Competitive Businesses;
- (c) the restrictions on Relevant System Planning Information provided for in Part C;
- (d) the appointment of a compliance officer and compliance reporting, provided for in Part E.

Part E: Appointment of a compliance officer and compliance reporting

2O.20 The licensee must ensure, following consultation with the Authority, that a competent person (who shall be known as the “compliance officer”) is appointed for the purpose of facilitating compliance by the licensee with the obligations pursuant to this condition, standard condition B5 (Prohibition of Cross-subsidies), standard condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business), together the “specified duties”. The person appointed as the compliance officer pursuant to this paragraph may also hold other compliance officer roles for the licensee or its Associates licensed under the Gas Act 1986.

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- 2O.21 The licensee must appoint a Single Appointed Director, being a member of the managerial board for the System Operator, for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the compliance officer set out in paragraph 2O.26 and the licensee's compliance with the specified duties. The Single Appointed Director must report to the board of the licensee in relation to the obligations set out in this condition.
- 2O.22 The licensee must establish a compliance committee (the "compliance committee"), being a sub-committee of the board of the licensee, for the purpose of overseeing and ensuring the performance of the duties and tasks of the compliance officer set out in paragraph 2O.26 and the compliance of the licensee with its specified duties. The compliance committee will report to the board of the licensee and will include among its members the Single Appointed Director and such persons from within the licensee's business as are responsible for the management of regulatory issues relating to the licence.
- 2O.23 The licensee must ensure that the compliance officer:
- (a) is provided with such employees, premises, equipment, facilities and other resources; and
 - (b) has such access to the licensee's premises, systems, information and documentation,
- as, in each case, the compliance officer might reasonably require for the fulfilment of the duties and tasks assigned to him pursuant to this condition.
- 2O.24 Except to the extent provided for in paragraph 2O.20, the licensee must ensure that the compliance officer is not engaged in the management or operation of the Transmission Business, any Associate of the licensee or any Relevant Other Competitive Businesses.
- 2O.25 The licensee must make available to the compliance officer details of any complaint or representation received by it from any person in respect of the conduct of the licensee in undertaking the specified duties.
- 2O.26 The duties and tasks of the compliance officer must include:
- (a) providing advice and information to the licensee (including individual directors of the licensee) and the Single Appointed Director for the purpose of ensuring the licensee's compliance with the specified duties;
 - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the specified duties and described in the compliance statement;

- (c) advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to secure the required co-operation;
- (d) investigating any complaint or representation made available to the compliance officer in accordance with paragraph 2O.25;
- (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;
- (f) providing relevant advice and information to the licensee (including individual directors of the licensee) and the compliance committee established under paragraph 2O.22, for the purpose of ensuring its implementation of:
 - (i) the practices, procedures and systems adopted in accordance with the compliance statement; and
 - (ii) any remedial action recommended in accordance with subparagraph (e);
- (g) reporting to the compliance committee any instances which come to his attention, relating to a member of any of the managerial boards of the licensee, taking into account the interests of a business other than that in respect of which the board of which he is a member of has been established; and
- (h) reporting annually to the compliance committee as to the compliance officer's activities in respect of the specified duties during the period covered by the annual report.

2O.27 As soon as is reasonably practicable and in any event no later than 90 days following each annual report of the compliance officer, the licensee must produce, in a form approved by the Authority in accordance with paragraph 2O.16, a report ("the compliance report"):

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

2O.28 The compliance report produced in accordance with paragraph 2O.27 must in particular:

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

- (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the compliance statement;
- (c) set out the details of any investigations conducted by the compliance officer, including:
 - (i) the number, type and source of the complaints or representations on which such investigations were based;
 - (ii) the outcome of such investigations; and
 - (iii) any remedial action taken by the licensee following such investigations; and
- (d) be accompanied by a certificate (“the compliance certificate”), in a form approved by the Authority in accordance with paragraph 2O.16, approved by a resolution of the board of the licensee and signed in good faith by the Single Appointed Director pursuant to that resolution, on the licensee’s compliance with the specified duties. The compliance certificate should certify that, to the best of the Single Appointed Director’s knowledge, information and belief, having made due and careful enquiry, the report of the compliance officer fairly represents the licensee’s compliance with the specified duties.

2O.29 The licensee must, as soon as reasonably practicable, following the approval of the compliance certificate by the board of the licensee, and in any event no later than ~~90~~ 120 days following each annual report of the compliance officer, submit to the Authority a copy of the compliance report and compliance certificate produced in accordance with paragraphs 2O.27 and 2O.28, and publish copies of each of them on its website.

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

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

2O.31 The Independent Examiner’s report must be provided to the Authority within three working days of the licensee receiving it from the Independent Examiner.

2O.32 The Independent Examiner's report must be commissioned at such intervals as the Authority may direct.

Chapter 3: Transmission – Revenue Restriction

Special Condition 3A. Restriction of Transmission Network Revenue

Introduction

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

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

Part A: Licensee's obligation

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

Part B: Calculation of Maximum Revenue (TO_t)

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

$$TO_t = BR_t + PT_t + OIP_t + NIA_t + NICF_t + TIRG_t + DIS_t + TS_t - K_t$$

3A.4 In the Principal Formula:

- TO_t means the amount of Maximum Revenue in Relevant Year t.
- BR_t means the amount of Base Transmission Revenue in Relevant Year t as derived in accordance with the formula set out in Part C of this condition.
- PT_t means the allowed pass-through items revenue adjustment made in Relevant Year t as derived in accordance with Special Condition 3B (Calculation of allowed pass-through items).
- OIP_t means the outputs incentive revenue adjustment made in Relevant Year t as derived in accordance with the formula set out in Part D of this condition.
- NIA_t means the revenue adjustment made in Relevant Year t in respect of the Network Innovation Allowance as derived in accordance with Special Condition 3H (The Network Innovation Allowance).
- $NICF_t$ means the revenue adjustment made in Relevant Year t in respect of the allowance given under the Network Innovation Competition as derived in accordance with Special Condition 3I (The Network Innovation Competition).
- $TIRG_t$ means, for each Relevant Year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Annex A of Special Condition 3J (Transmission Investment for Renewable Generation), as derived in accordance with that condition.
- DIS_t means the adjustment as a result of:
- (a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro Electric Transmission Plc and SP Transmission Ltd in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC) minus
 - (b) the total income recovered by the licensee in respect of Excluded Services in Relevant Year t-1 from customers in the respective Transmission Areas of each of Scottish Hydro Electric Transmission Plc and SP Transmission Ltd.

- TS_t means the adjustment as a result of :
- (a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro Electric Transmission Plc, SP Transmission Ltd and any Offshore Transmission Owner in respect of Transmission Owner Final Sums (as such charges are defined in schedule nine of the STC) minus
 - (b) an amount equal to the income received by the licensee in Relevant Year t-1 in respect of users who reduce TEC or developer capacity (as defined in the CUSC) or who terminate relevant bilateral agreements for connection and/or access rights to the GB transmission system in the respective Transmission Areas of each of Scottish Hydro Electric Transmission Plc, SP Transmission Ltd and any Offshore Transmission Owner (for the avoidance of doubt, including any amounts that are treated as capital contributions).
- K_t means the correction term in Relevant Year t as derived in accordance with the formula set out in Part E of this condition.

Part C: Calculation of Base Transmission Revenue (BR_t)

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

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

3A.6 In the above formula for BR_t :

- PU_t means the amount set out against the licensee's name in Appendix 1 of this condition and represents the Opening Base Revenue Allowance in Relevant Year t determined by the Authority in relation to the transmission of electricity.
- MOD_t has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year is the value of the incremental change for Relevant Year t from the licensee's Opening Base Revenue Allowances derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- TRU_t has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year means the revenue adjustment made in Relevant Year t in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 3A.8 of this condition.
- $RPIF_t$ is the price index adjustment factor in Relevant Year t as derived in accordance with paragraph 3A.7 of this condition.

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

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

where:

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

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

where:

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

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

and:

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

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

where:

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

3A.8 For the purposes of paragraph 3A.6 of this condition, TRU_t is derived in accordance with the following formula:

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

3A.9 In the above formula for TRU_t:

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

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

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

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

where:

| | |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BR_{t-2} | means the Base Transmission Revenue in Relevant Year t-2 as derived in accordance with the formula set out in this Part C. |
| RB_{t-2} | means the business rate adjustment in Relevant Year t-2 as derived in accordance with Part B of Special Condition 3B. |
| LF_{t-2} | means the licence fee adjustment in Relevant Year t-2 as derived in accordance with Part C of Special Condition 3B. |
| ITC_{t-2} | means the inter-transmission system operator compensation mechanism adjustment in Relevant Year t-2 as derived in accordance with Part E of Special Condition 3B. |
| TPD_{t-2} | means the temporary physical disconnection adjustment in Relevant Year t-2 as derived in accordance with Part D of Special Condition 3B. |
| RI_{t-2} | means the Reliability Incentive Adjustment in Relevant Year t-2 as derived in accordance with Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied). |
| SFI_{t-2} | means the revenue adjustment reflecting the licensee's performance in relation to its sulphur hexafluoride (SF ₆) gas emissions in Relevant Year t-2 as derived in accordance with Special Condition 3E (Incentive in Respect of Sulphur Hexafluoride (SF ₆) Gas Emissions). |
| $IPTIRG_{t-2}$ | means the annual preconstruction and contingency revenue allowance in Relevant Year t-2 and has the value given to it by Part 1 of Special Condition 3J. |
| $FTIRG_{t-2}$ | means the annual construction revenue allowance in Relevant Year t-2 and has the value given to it by Part 1 of Special Condition 3J. |
| $ETIRG_{t-2}$ | means the annual incentive revenue allowance in Relevant Year t-2 and has the value given to it by Part 1 of Special Condition 3J. |

3A.11 For the purposes of paragraph 3A.9 of this condition, in Relevant Year 2014/15, REV_{t-2} is derived in accordance with the following formula:

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

where:

- PR_{t-2}** means, in respect of the Relevant Year commencing 1 April 2012, the Base Transmission Revenue as derived in accordance with Special Condition D2 (Restriction on Transmission Network Revenue) of this licence in the form in which it was in force at 31 March 2013.
- TOInc_{t-2}** means, in respect of the Relevant Year commencing 1 April 2012, the revenue adjustments in respect of Transmission Investment Incentives Projects as derived in accordance with Special Condition D2 of this licence in the form in which it was in force at 31 March 2013.
- IPTIRG_{t-2}** means, in respect of the Relevant Year commencing 1 April 2012, the annual preconstruction and contingency revenue allowance as derived in accordance with Special Condition D3 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation) of this licence in the form in which it was in force at 31 March 2013.
- FTIRG_{t-2}** means, in respect of the Relevant Year commencing 1 April 2012, the annual construction revenue allowance as derived in accordance with Special Condition D3 of this licence in the form in which it was in force at 31 March 2013.
- ETIRG_{t-2}** means, in respect of the Relevant Year commencing 1 April 2012, the annual incentive revenue allowance as derived in accordance with Special Condition D3 of this licence in the form in which it was in force at 31 March 2013.
- CxIncRA_{t-2}** means, in respect of the Relevant Year commencing 1 April 2012, the capital expenditure incentive revenue adjustment as derived in accordance with Special Condition D9 (Capital Expenditure Incentive and Safety Net) of this licence in the form in which it was in force at 31 March 2013.
- PF_{t-2}** means, in respect of the Relevant Year commencing 1 April 2012, the licence fee payments allowance as represented by the amount set out in Special Condition D4 (Pass Through Items) of this licence in the form in which it was in force at 31 March 2013.

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RV_{t-2} means , in respect of the Relevant Year commencing 1 April 2012, the non-domestic rate allowance as represented by the amount set out in Special Condition D4 (Restriction of transmission charges: Allowed pass-through items) of this licence in the form in which it was in force at 31 March 2013.

ITV_{t-2} means , in respect of the Relevant Year commencing 1 April 2012, the inter-transmission system operator compensation scheme allowance as represented by the amount set out in Special Condition D4 of this licence in the form in which it was in force at 31 March 2013.

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

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

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

3A.13 In the above formula for OIP_t :

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

SSO_t means the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to its stakeholder satisfaction as derived in accordance with Special Condition 3D (Stakeholder Satisfaction Output).

SFI_t means the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to its sulphur hexafluoride (SF_6) gas emissions as derived in accordance with Special Condition 3E (Incentive in Respect of Sulphur Hexafluoride (SF_6) Gas Emissions).

EDR_t means the revenue adjustment made in Relevant Year t reflecting the licensee's performance under the Environmental Discretionary Reward Scheme as derived in accordance with Special Condition 3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme).

Part E: Calculation of the correction term (K_t)

3A.14 For the purposes of the Principal Formula, subject to paragraph 3A.15 and 3A.16, K_t is derived in accordance with the following formula:

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

where:

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- TNR_{t-2} means the Transmission Network Revenue as defined in Special Condition 1A (Definitions and interpretation) in respect of Relevant Year t-2.
- TO_{t-2} means the Maximum Revenue as derived in accordance with Part B of this condition in respect of Relevant Year t-2.
- I_t means the Average Specified Rate in Relevant Year t.
- PR_t means the interest rate adjustment in Relevant Year t as derived in accordance with the formula set out in Part F of this condition.

3A.15 For the Relevant Year commencing 1 April 2013, K_t is derived in accordance with the following formula:

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

- TNR_{t-1} means the Transmission Network Revenue in respect of the Relevant Year commencing 1 April 2012 as defined in Special Condition D1 of this licence in the form in which it was in force at 31 March 2013.
- TO_{t-1} means the Maximum Revenue in respect of the Relevant Year commencing 1 April 2012 as derived in accordance with Special Condition D2 of this licence in the form in which it was in force at 31 March 2013.
- I_t means the Average Specified Rate in Relevant Year t.
- PRO_t means the interest rate adjustment in Relevant Year t as derived in accordance with the formula set out in Part F of this condition.

3A.16 In the Relevant Year 2014/15 K_t will have the value zero.

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

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

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

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

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

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

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

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

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

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

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

3A.22 If, in respect of two successive Relevant Years t-2 and t-3, the licensee's Transmission Network Revenue in each of those Relevant Years is less than 90.5 per cent of the Maximum Revenue for those Relevant Years, the licensee:

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

Appendix 1

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

(see paragraph 3A.6 of this condition)

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

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
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Special Condition 3B. Calculation of allowed pass-through items

Introduction

- 3B.1 The purpose of this condition is to provide for the calculation of the term PT_t (the allowed pass-through items revenue adjustment) for the purposes of Part B of Special Condition 3A (Restriction of Transmission Network Revenue).
- 3B.2 The effect of the application of the PT_t term in Part B of Special Condition 3A is to ensure that the level of the licensee's Maximum Revenue derived in accordance with that condition reflects certain costs that can be passed through to users.

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

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

$$PT_t = RB_t + LF_t + TPD_t + ITC_t + Term_t + TSP_t + TSH_t + TOFTO_t + OFET_t$$

- 3B.4 In the Principal Formula:

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

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

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

ITC_t means the adjustment in respect of participation in the inter-transmission system operator compensation mechanism in Relevant Year t as derived in accordance with the formula set out in Part E of this condition.

$Term_t$ means the adjustment equal to the income received by the licensee in Relevant Year t in respect of users who reduce TEC or developer capacity (as defined in the CUSC) or who terminate relevant bilateral agreements for connection and/or access rights to the National Electricity Transmission System (and is net of any amounts that are treated as capital contributions).

TSP_t means the amount notified to the licensee by SP Transmission Ltd or any successor company in relation to Relevant Year t pursuant to its electricity transmission licence.

TSH_t means the amount notified to the licensee by Scottish Hydro Electric Transmission Plc or any successor company in relation to Relevant Year t pursuant to its electricity transmission licence.

TOFTO_t means the total of the amounts notified to the licensee by each Offshore Transmission Owner in relation to Relevant Year t pursuant to their electricity transmission licences.

OFET_t means the amount equal to the payments made, in total, by the licensee to the electricity distributors with respect to charges for use of electricity distribution systems by offshore generating stations connected to those systems via Embedded Transmission Systems.

Part B: Calculation of the business rate adjustment term (RB_t)

3B.5 For the purposes of the Principal Formula, subject to paragraph 3B.7 and 3B.8, RB_t is derived in accordance with the following formula:

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

3B.6 In the above formula for RB_t:

RBA_{t-2} means the amount payable by the licensee, in Relevant Year t-2, in respect of Non-Domestic Rates.

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

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

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

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

3B.7 In the Relevant Years 2013/14 and 2014/15 RB_t will have the value zero.

3B.8 In respect of any Relevant Year t-2 in which the revaluation by the Valuation Office Agency (in England and Wales) or the Scottish Assessors Association (in Scotland) of the assets of the licensee's Transmission Network for the purposes of setting Non-Domestic Rates came into effect, RB_t will have the value of zero in Relevant Year t and in each subsequent Relevant Year, unless the Authority has satisfied itself that the licensee has used reasonable endeavours to minimise the amount of the prescribed Non-Domestic Rates. If the Authority has so satisfied itself, it will direct that the formula set out in this Part B is to apply for the purposes of calculating the RB_t term in the specific Relevant Year and in each of the subsequent Relevant Years.

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

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

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

3B.10 In the above formula for LF_t:

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| | |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| LFA _{t-2} | means the amount in respect of licence fee payments that is equal to the payments, in total, made by the licensee in Relevant Year t-2, in accordance with its obligations under standard condition A4 (Payments by the licensee to the Authority). |
| LFE _{t-2} | means the licence fee allowance in Relevant Year t-2, and is represented by the amount set out in Appendix 2 of this condition. |
| RPIA _{t-2} | has the value given to it by Part C of Special Condition 3A. |
| PVF _t | has the value given to it by Part C of Special Condition 3A. |
| RPIF _t | has the value given to it by Part C of Special Condition 3A. |

3B.11 In the Relevant Years 2013/14 and 2014/15 LF_t will have the value zero.

Part D: Calculation of the temporary physical disconnection term (TPD_t)

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

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

3B.13 In the above formula for TPD_t:

| | |
|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| TPA _{t-2} | means the amount equal to the costs incurred by the licensee in relation to interruption payments made by the System Operator as part of its balancing services activity in the licensee's Transmission Area that are charged to the Transmission Licensee within each respective Relevant Year t-2. |
| RPIA _{t-2} | has the value given to it by Part C of Special Condition 3A. |
| PVF _t | has the value given to it by Part C of Special Condition 3A. |
| RPIF _t | has the value given to it by Part C of Special Condition 3A. |

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

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

3B.15 For the purposes of the Principal Formula, subject to paragraph 3B.17 of this condition, the value of ITC_t is derived in accordance with the following formula:

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

3B.16 In the above formula for ITC_t:

| | |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| ITP _{t-2} | means the compensation, in Relevant Year t-2 (whether of a positive or negative value), arising from the participation by Great Britain in |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------|

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the inter-transmission system operator compensation mechanism as provided for in Article 13 of the Electricity Regulation.

ITA_{t-2} is the inter-transmission system operator compensation mechanism allowance in Relevant Year t-2 and has the value set out in Appendix 3 of this condition.

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

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

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

3B.17 In the Relevant Years 2013/14 and 2014/15 ITC_t will have the value zero.

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

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

| Licensee | RBE (£m) | | | | | | | |
|--------------------------------------------|----------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| National Grid Electricity Transmission plc | 73.453 | 66.884 | 66.882 | 66.883 | 66.882 | 66.882 | 66.882 | 66.882 |

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

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

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

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

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

| Licensee | ITA (£m) | | | | | | | |
|--------------------------------------------|----------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| National Grid Electricity Transmission plc | 8.000 | 8.000 | 8.000 | 8.000 | 8.000 | 8.000 | 8.000 | 8.000 |

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

Introduction

- 3C.1 The purpose of this condition is to calculate the Reliability Incentive Adjustment term RI_t , reflecting the licensee's performance against a reliability incentive relating to energy not supplied, for the purposes of Part D of Special Condition 3A (Restriction of Transmission Network Revenue).
- 3C.2 The effect of the application of the Reliability Incentive Adjustment term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust the Output Incentive Revenue Adjustment (OIP_t) term in Part D of that condition.

Part A: Adjustment arising from reliability incentive in respect of energy not supplied (RI_t)

- 3C.3 The following formula applies for the purpose of deriving the value of the term RI_t for each of the Relevant Years beginning on 1 April 2013 and 1 April 2014:

$$RI_t = RILEG_t$$

where:

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

- 3C.4 The following formula (for the purposes of this condition, the "Principal Formula") applies for the purpose of deriving the value of the term RI_t for the Relevant Year beginning on 1 April 2015 and in each subsequent Relevant Year:

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

where:

ENSA_{t-2} is the sum of the volumes of energy not supplied in all Incentivised Loss of Supply Events in Relevant Year $t-2$, as reported by the licensee in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

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| | |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ENST _{t-2} | is the incentivised loss of supply volume target in Relevant Year t-2, and has the value of 316 MWh for each Relevant Year. |
| VOLL | is the value of lost load which has the value £16,000 per MWh in (2009/10 prices). |
| RIDPA | is the maximum downside percentage adjustment, and will be set at 3 per cent. |
| Max (A,B) | means the greater of A and B. |
| BR _{t-2} | means the Base Transmission Revenue in Relevant Year t-2 and will be calculated in accordance with Part C of Special Condition 3A for that year. |
| TIRG _{t-2} | means the value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation). |
| RPIA _{t-2} | has the value given to it by Part C of Special Condition 3A. |
| PTIS _{t-2} | means the post-tax Totex Incentive Strength adjustment in Relevant Year t-2 as calculated in accordance with the formula in paragraph 3E.6 of Special Condition 3E (Incentive in Respect of Sulphur Hexafluoride (SF ₆) Gas Emissions). |
| PVF _t | has the value given to it by Part C of Special Condition 3A. |
| RPIF _t | has the value given to it by Part C of Special Condition 3A. |

Part B: Methodology Statement in respect of reliability Incentive

- 3C.5 The licensee must have in place and maintain a Reliability Incentive Methodology Statement approved by the Authority that sets out the methodology the licensee will use to calculate the volume of energy not supplied arising from each Incentivised Loss of Supply Event, having regard to the approaches taken by the other Transmission Licensees subject to a condition of equivalent effect to this condition, and to the approved statement prescribed by Standard Condition C17 (Transmission system security and quality of service) setting out criteria by which system availability, security and service quality of the National Electricity Transmission System may be measured.
- 3C.6 The licensee must use reasonable endeavours to apply the methodology that is set out in the Reliability Incentive Methodology Statement to calculate the volume of energy not supplied as a result of any Incentivised Loss of Supply Event.
- 3C.7 Before revising the Reliability Incentive Methodology Statement, the licensee must submit to the Authority a copy of the proposed revisions to that statement.
- 3C.8 Unless the Authority otherwise directs within one month after receiving any proposed revisions to the Reliability Incentive Methodology Statement, the revisions proposed by the licensee will take effect and the licensee must use reasonable endeavours to apply the

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methodology as revised when calculating the volume of energy not supplied as a result of any Incentivised Loss of Supply Event occurring after the end of that one month period.

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

Part C: Notification and Treatment of Exceptional Events

- 3C.10 Where the licensee considers that an event on the licensee's Transmission System that has caused electricity not to be supplied to a customer has been wholly or partially caused by an Exceptional Event, the licensee must:
- (a) notify the Authority of that event as soon as reasonably practicable but at the latest within 14 days of its occurrence; and
 - (b) provide details of the volume of unsupplied energy that it considers resulted from the Exceptional Event and such further information, if any, as the Authority may require in relation to that event.
- 3C.11 Where the Authority is satisfied that the event notified to it under paragraph 3C.10 of this condition is an Exceptional Event the Authority will, by notice to the licensee, direct that, for the purpose of calculating the volume of energy not supplied for the relevant Incentivised Loss of Supply Event, the constituent data relevant to that event are to be adjusted as specified in that direction.
- 3C.12 Any adjustment directed by the Authority is to be based on the extent to which the Authority is satisfied that the licensee used reasonable endeavours both to prevent the event having the effect of interrupting supply and to mitigate its effect (both before and after it has occurred).
- 3C.13 A direction issued by the Authority under paragraph 3C.11 of this condition is of no effect unless the Authority has first:
- (a) given notice to the licensee that it proposes to issue the direction:
 - (i) specifying the terms of the proposed direction and the date on which it proposes that the direction to be issued should take effect;
 - (ii) setting out the Authority's reasons for proposing to issue the direction;
 - (iii) specifying the time (which will not be less than 28 days from the date of the notice) within which representations may be made; and
 - (b) considered any representations in response to the notice that are duly made and not withdrawn.

Special Condition 3D.Stakeholder Satisfaction Output

Introduction

- 3D.1 The purpose of this condition is to set out the mechanism for calculating the value of the licensee's Stakeholder Satisfaction Output (SSO_t) term.
- 3D.2 The effect of the application of the SSO_t term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust the amount of the Output Incentive Revenue Adjustment (OIP_t) term in Part D of that condition in order to reflect the licensee's performance in relation to its Stakeholder Satisfaction Output.

Part A: Formula for the Stakeholder Satisfaction Output term

- 3D.3 For the purposes of Part D of Special Condition 3A, the value of the SSO_t term is derived in accordance with the following formula:

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

where:

| | |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SER _{t-2} | (the Stakeholder Engagement Reward term) means a positive adjustment (if any) that may be determined by the Authority pursuant to the provisions of Part B below in recognition of the licensee's demonstration that effective stakeholder engagement by it has led to High Quality Outcomes for its stakeholders in respect of performance in Relevant Year t-2. |
| SSS _{t-2} | (the Stakeholder Satisfaction Survey term) means the adjustment that is required in respect of the licensee's performance in Relevant Year t-2 in relation to its customer and stakeholder satisfaction surveys in that year, and is calculated in accordance with the provisions of Part D below. |
| I _t | means the Average Specified Rate in Relevant Year t. |

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

Part B: Determination of the Stakeholder Engagement Reward

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

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

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

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- 3D.7 The licensee may apply to be awarded a Stakeholder Engagement Reward in respect of Relevant Year t-2 in accordance with such procedures, timescales and minimum eligibility criteria as may be set out in the Stakeholder Engagement Reward Guidance that is published on Ofgem’s website (and that may be modified from time to time in accordance with the provisions of Part C below).
- 3D.8 In addition to making provision for the matters mentioned in paragraph 3D.7, the Stakeholder Engagement Reward Guidance may also make provision for:
- (a) the appointment, by the Authority, of persons who will allocate the Stakeholder Engagement Reward; and
 - (b) the manner and process by which such assessments will be made and any rewards will be made.

Part C: Modification of the Stakeholder Engagement Reward Guidance

- 3D.9 The Stakeholder Engagement Reward Guidance (“the Guidance”) may be modified by the Authority by direction following the procedure set out in this Part C.
- 3D.10 A direction issued by the Authority under paragraph 3D.9 is of no effect unless the Authority has first:
- (a) given notice to all licensees in whose licence this condition has effect, that it proposes to modify the Guidance:
 - (i) specifying the date on which it proposes that the provisions of the modified Guidance should take effect;
 - (ii) setting out the text of the modified Guidance and the Authority’s reasons for the proposed modifications;
 - (iii) specifying the time (which must not be less than a period of 28 days from the date of the notice) within which representations may be made; and
 - (b) considered any representations in response to the notice that are duly made and not withdrawn.

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

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

$$SSS_{t-2} = (BR_{t-2} + TIRG_{t-2}) \times [(CSSAF_{t-2} \times CSSPRO_{t-2}) + (SSSAF_{t-2} \times (1 - CSSPRO_{t-2}))]$$

where:

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

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

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

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

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

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

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

Otherwise:

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

where:

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

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

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

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

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

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

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

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

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

If SSSP_{t-2} > SSST:

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

If SSSP_{t-2} < SSST:

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

Otherwise:

$$SSSAF_t = 0$$

where:

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

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

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

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

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

SSSP_{t-2} is the overall stakeholder satisfaction survey result in the Relevant Year t-2.

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

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

CSSPRO_{t-2} is the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the Customer Satisfaction Survey in respect of Relevant Year t-2, which has the value as specified in the following table:

| Relevant year t | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | | | | | | | |

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| | | | | | | | | |
|---------------------|----|----|----|----|----|----|----|----|
| CSSPRO _t | AA | BB | CC | DD | EE | FF | GG | HH |
|---------------------|----|----|----|----|----|----|----|----|

3D.12 The licensee must submit proposed values for the terms X, Y and Z and the terms AA, BB,CC, DD, EE, FF, GG and HH within 30 days of 1 April 2013. The Authority will determine values for these terms taking account of this submission.

Part E: Customer and Stakeholder Satisfaction Surveys

- 3D.13 Unless otherwise agreed with the Authority, the licensee must carry out a survey at least once a year to assess customer and stakeholder satisfaction with its activities (the Customer and Stakeholder Satisfaction Surveys).
- 3D.14 The licensee may include such questions as it deems appropriate, subject to the inclusion of one question that asks for overall satisfaction to be rated on a scale of 1 to 10, when 1 is low and 10 is high.
- 3D.15 The licensee must report on the outcomes of this overall stakeholder satisfaction question in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).
- 3D.16 The licensee must share the outcomes from this survey with the Authority and licensees within whose licence a condition of like effect to this condition is in force and other interested parties at its own discretion.
- 3D.17 The Authority will review the licensee's approach to conducting the survey and reporting the outcome of the satisfaction question as required by paragraph 3D.15 of this condition and provide feedback to the licensee.

Special Condition 3E. Incentive in Respect of Sulphur Hexafluoride (SF₆) Gas Emissions

Introduction

- 3E.1 The purpose of this condition is to calculate the value of the Sulphur Hexafluoride Incentive term (SFI) to reflect the performance of the licensee in relation to actual sulphur hexafluoride (SF₆) emissions from assets comprising part of the licensee's Transmission System compared to a baseline target of SF₆ emissions for Relevant Year t-2.
- 3E.2 The effect of the application of the Sulphur Hexafluoride Incentive term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust the Output Incentive Revenue Adjustment (OIP) term in Part D of that condition.

Part A: Formula to calculate the Sulphur Hexafluoride Incentive

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

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

where:

| | |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CTE _{t-2} | means the calculated baseline target emissions of sulphur hexafluoride (SF ₆) gas in kilograms from assets comprising part of the licensee's Transmission System in Relevant Year t-2 as calculated in accordance with the formula set out in paragraph 3E.4 of this condition. |
| ALE _{t-2} | means the actual SF ₆ emissions in kilograms from assets comprising part of the licensee's Transmission System in Relevant Year t-2 and is calculated by the licensee in accordance with the methodology statement prepared by the licensee as described in Part B of this condition. |
| CF | means the adjustment factor to convert kilograms of SF ₆ to tonnes of carbon dioxide equivalent emissions and has a value of 23.9. |
| NTPC _{t-2} | means the relevant price per one tonne of non-traded carbon dioxide emissions in Relevant Year t-2 as set out in Table 1 of this condition. |
| PTIS _{t-2} | means the Post-tax Totex Incentive Strength adjustment in Relevant Year t-2 as calculated in accordance with the formula in paragraph 3E.6 of this condition. |
| PVF _t | has the value given to it by Part C of Special Condition 3A. |

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

Table 1: Non-traded price of carbon dioxide

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

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

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

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

where:

- BASE** means the actual leakage rate of SF₆ emissions from assets comprising the licensee's Transmission System for the Relevant Year 2012/13 converted into kilograms of SF₆.
- ADD_{t-2}** means the expected SF₆ emissions in kilograms from new assets containing SF₆ comprising part of the licensee's Transmission System in Relevant Year t-2 and is to be calculated in accordance with the methodology statement in respect of SF₆ gas leakage described in Part B of this condition and reported by the licensee in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).
- DSP_{t-2}** means the expected reduction in SF₆ emissions in kilograms from assets containing SF₆ decommissioned from service on the licensee's Transmission System in Relevant Year t-2 and is to be calculated in accordance with the methodology statement in respect of SF₆ gas leakage described in Part B of this condition and reported by the licensee in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

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

$$CTE_{t-2} = \text{FYCTE}_{t-3} + \text{ADD}_{t-2} - \text{DSP}_{t-2}$$

where:

- FYCTE_{t-3}** means the baseline target emissions for Relevant Year t-3 that is adjusted so that an amount of ADD or DSP reported by the licensee which is calculated for only part of that year is substituted

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with the expected amount of leakage as if those assets comprise part of the licensee's Transmission System for a full year. This is to be calculated in accordance with the methodology statement in respect of SF₆ gas leakage described in Part B of this condition.

- 3E.5 The licensee must report annually on ALE, ADD and DSP in accordance with the Standard Condition B15.
- 3E.6 For the purposes of paragraph 3E.3 of this condition the following formula shall be used to calculate PTIS_{t-2} for Relevant Years beginning on or after 1 April 2015:

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

where:

TIS has the meaning Totex Incentive Strength Rate and has the value given in Part A of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner).

TR_{t-2} means the corporation tax rate that is applicable to Relevant Year, t-2.

Part B: Methodology statement in respect of SF₆ gas leakage

- 3E.7 The licensee must submit to the Authority on or before 30 April 2013 (or such later date as the Authority may direct) a statement of methodology ("the statement") that is consistent with best industry practice for determining actual and expected leakage of SF₆ gas from the assets forming the licensee's Transmission System.
- 3E.8 The statement must set out the methodology by which the licensee will determine the leakage of SF₆ gas from the assets forming the licensee's Transmission System for the purposes of determining ALE, ADD and DSP.
- 3E.9 Unless the Authority otherwise directs within two months of the date of submission of the statement by the licensee in accordance with paragraph 3E.7 of this condition, the licensee must use reasonable endeavours to apply the methodology set out in that statement.
- 3E.10 Before revising the methodology set out in the statement, the licensee must submit a copy of the proposed revisions to the Authority.
- 3E.11 Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 3E.10 of this condition, the revisions will take effect and the licensee must use reasonable endeavours to apply the methodology as revised.

Part C: Notification and treatment of Exceptional Events

- 3E.12 Where the licensee considers that an event on the licensee's Transmission System that causes leakage of SF₆ has been wholly or partly caused by an SF₆ Exceptional Event the licensee must:
- (a) notify the Authority of that event as soon as reasonably practicable but at the latest 14 days after its occurrence; and

- (b) provide details of the event and such further information, if any, as the Authority may require in relation to it.
- 3E.13 Where the Authority is satisfied that the event that causes leakage of SF₆ is an SF₆ Exceptional Event, the Authority may, by notice to the licensee, direct that the value of ALE in Relevant Year t-2 is to be adjusted as specified in that direction.
- 3E.14 The Authority's power to direct the value of any adjustment to ALE in Relevant Year t-2 under paragraph 3E.13 of this condition includes the power to modify the value of any proposed adjustment notified to the Authority by the licensee in that respect.
- 3E.15 Any adjustment directed under paragraph 3E.13 of this condition must take account of the extent to which the Authority is satisfied that the licensee had used reasonable endeavours to prevent the event from resulting in the leakage of SF₆ and to mitigate its effect (both before the event and after it occurred).
- 3E.16 A direction issued by the Authority under paragraph 3E.13 of this condition, is of no effect unless the Authority has first:
 - (a) given notice to the licensee that it proposes to issue the direction:
 - (i) specifying the terms of the direction and the date on which it proposes that the direction to be issued should take effect;
 - (ii) setting out the Authority's reasons for proposing to issue the direction;
 - (iii) specifying the time (which must not be less than 28 days from the date of the notice) within which representations may be made; and
 - (b) considered any representations in response to the notice that are duly made and not withdrawn.
- 3E.17 For the purposes of this condition an 'SF₆ Exceptional Event' means an event or circumstance that is beyond the reasonable control of the licensee and results in, causes, and/or prohibits the timely prevention of the leakage of SF₆ (and includes but is not limited to) any event or circumstance where the risk of significant danger to the public requires the licensee to prioritise health and safety objectives over the reduction of leakage of SF₆ at a particular site).

Special Condition 3F. Adjustment in Respect of the Environmental Discretionary Reward Scheme

Introduction

3F.1 The purpose of this condition is:

- (a) to establish the Environmental Discretionary Reward (EDR) Scheme for the purpose of determining the value of an EDR_t term; and
- (b) to make provision for arrangements relating to administration, governance and revision of the EDR Scheme.

3F.2 The effect of the application of the EDR_t term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust upwards the amount of the Output Incentive Revenue Adjustment (OIP_t) term in Part D of that condition in order to reflect the licensee's performance in relation to the EDR Scheme in each Relevant Year.

Part A: Objective of the EDR Scheme

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

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

Part B: Determination of the EDR term

3F.5 The licensee may make a submission to be considered under the EDR Scheme. The annual submission requirements for the licensee and the process for assessing a reward under the EDR Scheme are provided in the EDR Scheme Guidance issued by the Authority under Parts C and D of this condition.

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

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

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

where:

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

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I_t means the Average Specified Rate in Relevant Year t .

Part C: The EDR Scheme Guidance

- 3F.8 The EDR Scheme Guidance is a document published, and from time to time revised by the Authority in accordance with Part D of this condition.
- 3F.9 The EDR Scheme Guidance may, without limitation, make appropriate provision for or impose requirements in respect of:
- (a) the format of submission to be made by the licensee to the Authority in respect of the EDR Scheme, the activity areas to be covered, the type of information and evidence to be provided, and the format of the submission;
 - (b) the Authority's process for assessing any submission made by the licensee, including assessment criteria, the scoring associated with the different performance areas and the appointment and role of any expert panel incorporated in the EDR Scheme process;
 - (c) the process by which the Authority will determine the EDR_t term for Relevant Year t including any reward allocation rules in relation to the licensee's overall level of performance;
 - (d) the procedures by which the Authority will notify the licensee with respect to any direction in relation to the EDR_t term; and
 - (e) any other matters relating to the administration and governance of the EDR Scheme which appear to the Authority to be appropriate.
- 3F.10 If the licensee makes a submission to the Authority for consideration under the EDR Scheme, the licensee must comply with the EDR Scheme Guidance as if it formed part of this condition.

Part D: Establishment and Modification of the EDR Scheme Guidance

- 3F.11 The EDR Scheme Guidance shall be established and may be modified by the Authority by direction.
- 3F.12 A direction issued by the Authority under paragraph 3F.11 of this condition is of no effect unless the Authority has first:
- (a) given notice to all licensees in whose licence this condition has effect that it proposes to establish or modify the EDR Scheme Guidance:
 - (i) specifying the date on which it proposes that the provisions of the EDR Scheme Guidance or modified EDR Scheme Guidance should take effect;
 - (ii) setting out the text of the EDR Scheme Guidance or modified EDR Scheme Guidance and the Authority's reasons for proposing to modify it;
 - (iii) specifying the time (which must not be less than a period of 28 days from the date of the notice) within which representations may be made; and

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

Special Condition 3G. Not Used

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Special Condition 3H. The Network Innovation Allowance

Introduction

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

Part A: Calculation of the NIA term

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

$$NIA_t = ANIA_t - NIAR_t$$

For the purposes of the Principal Formula:

- NIA_t means the total allowed adjustment in Relevant Year t .
- $ANIA_t$ means the total Allowable NIA Expenditure in Relevant Year t and is derived in accordance with the appropriate formula set out in Part B below.
- $NIAR_t$ means an amount recovered by the licensee in relation to the Relevant Year t or a previous Relevant Year under the NIA which the Authority has determined, in accordance with provisions set out in paragraph 3H.8 of this condition and the NIA Governance Document, to be unrecoverable (see Part C below).

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

Part B: Calculation of Allowable NIA Expenditure (ANIA)

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

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

where:

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| | |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PTRA | is the pass-through factor and has the value of 0.9. |
| ENIA _t | means the Eligible NIA Expenditure for Relevant Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with Standard Condition B15 (Regulatory Instructions and Guidance). |
| BPC _t | means the Eligible NIC Bid Preparation Costs for the Relevant Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with Standard Condition B15. Where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot exceed the amount calculated in accordance with this condition. The value of BPC _t for Relevant Years t = 2013/14 to 2017/18 is the lower of: <ul style="list-style-type: none"> a) £175,000 in total; or b) 5% of the amount applied for by the Licensee or the group where the relevant under the Network Innovation Competition, as defined in Special Condition 3I (the Network Innovation Competition). For Relevant Year 2018/19 and in subsequent Relevant Years BPC _t will have the value zero. |
| NIAV | means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition). |
| BR _t | means the Base Transmission Revenue in Relevant Year t, and is derived in accordance with Part B of Special Condition 3A. |

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

$$NIAIE_t \leq Z \times ENIA_t$$

where:

| | |
|--------------------|------------------------------------------------------------------------------------------------------------------|
| NIAIE _t | is the Eligible NIA Internal Expenditure that qualifies as Eligible NIA Expenditure for the Relevant Year t; and |
| Z | Z has the value of 0.25, except insofar as the Authority consents otherwise. |

Part C: Treatment of Unrecoverable Expenditure

3H.8 In any Relevant Year t, the Authority may set, by direction given to the licensee, an amount for NIAR_t that will reduce the licensee's NIA revenue by the amount that the

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Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

Part D: The NIA Governance Document

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

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

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

3H.11 Where provisions of the NIA Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the NIA Governance Document were part of this condition.

Part E: Procedure for issuing the NIA Governance Document

3H.12 Before issuing the NIA Governance Document under this condition, the Authority, by notice given to the licensee and all other electricity transmission licensees with a condition of similar effect to this condition in their licence, will:

- (a) state that it proposes to issue the NIA Governance Document, and specify the date on which it proposes that this should take effect;

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- (b) set out the text of the NIA Governance Document and the Authority’s reasons for proposing to issue it; and
- (c) specify the date (which will not be less than a period of 28 days from the date of the notice) within which representations with respect to the proposed NIA Governance Document may be made.

3H.13 The Authority will consider any representations that are duly made and not withdrawn.

3H.14 The requirements of paragraphs 3H.12 and 3H.13 of this condition may be satisfied by action taken by the Authority before, as well as by action taken after, the coming into force of this condition.

3H.15 In paragraph 3H.12 of this condition “issuing the NIA Governance Document” includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

Part F: Interpretation

3H.16 Defined terms used in this condition and set out in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further clarification that might be set out in the NIA Governance Document in relation to such terms.

APPENDIX 1: NIA Percentage

(see the NIAV term under Part B of this condition)

| Licensee | NIA Percentage (%) |
|--------------------------------------------|--------------------|
| National Grid Electricity Transmission plc | 0.7 |

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Special Condition 3I. The Network Innovation Competition

Introduction

- 3I.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (NIC) that will enable the Authority to determine the value of the Network Innovation Competition Funding (NICF) term that is to apply in Part B of Special Condition 3A (Restriction of Transmission Network Revenue) with respect to the funding of innovative low carbon or environmental projects.
- 3I.2 The effect of the application of the NICF term in Part B of Special Condition 3A is to adjust the calculation of the licensee's Maximum Revenue in order to fund investment in innovation under the NIC established pursuant to this condition.
- 3I.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

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

- 3I.4 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the licensee through its Transmission Network Charges pursuant to the NIC Funding Mechanism described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.
- 3I.5 The value of the NICF term that is to be incorporated into the Maximum Revenue in accordance with the provisions of Special Condition 3A in respect of any Relevant Year comprises the total of the allowed revenues of the licensee recovered under the NIC Funding Mechanism in that year.
- 3I.6 Accordingly, for the purposes of Part B of Special Condition 3A, the amount of the NIC adjustment in the NICF term in any Relevant Year is determined in accordance with Parts B to D below and subject to the relevant provisions of the NIC Governance Document.

Part B: The NIC Funding Mechanism

- 3I.7 The NIC Funding Mechanism is the mechanism by which the licensee recovers the amount of authorised NIC Funding in any Relevant Year and apportions that amount between the licensee and other Transmission Licensees and Electricity Distribution Licensees as appropriate in accordance with the NIC Governance Document.
- 3I.8 NIC Funding is the total amount of funding authorised by the Authority for the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.

Part C: The Funding Return Mechanism

- 3I.9 The Funding Return Mechanism provides for the recovery from the licensee and from other electricity Transmission Licensees and Electricity Distribution Licensees, in each case to such extent (if any) as may be relevant, of:

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- (a) Halted Project Revenues;
 - (b) Disallowed Expenditure;
 - (c) Returned Royalty Income; and
 - (d) Returned Project Revenues.
- 3I.10 The Funding Return is the total amount (in respect of the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees) of any amounts arising under paragraph 3I.9 of this condition.
- 3I.11 Halted Project Revenues are revenues received (whether by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees) 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.
- 3I.12 Disallowed Expenditure is revenue received (whether by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees) 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.
- 3I.13 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees), 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.
- 3I.14 For the purposes of paragraph 3I.13 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other Transmission Licensee and Electricity Distribution Licensees) that have not been otherwise remunerated through Transmission Network Charges, do not fall within the Statement of General Principle for Excluded Services set out in Part B of Special Condition 8B (Services treated as Excluded Services), or the NIC Funding Mechanism.
- 3I.15 Returned Project Revenues are:
- a) revenues received (whether by the licensee or any other Electricity Transmission Licensee or Electricity Distribution Licensees) under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction; or
 - b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensees) other than Returned Royalty Income, that the Authority determines are payable to customers.

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3I.16 The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee.

Part D: Determination of the NICF term

3I.17 The NICF term is the amount for Relevant Year t that is to be recovered by the licensee on behalf of itself, other electricity Transmission Licensees and Electricity Distribution Licensees, as determined by the Authority under paragraph 3I.16 in relation to:

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

3I.18 In each Relevant Year t , as provided for by the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and other electricity Transmission Licensees, will specify in accordance with the appropriate provisions set out in the NIC Governance Document:

- (a) the value of the NICF term for the licensee (being the amount, if any, to be recovered by the licensee in order to contribute to its own and other electricity Transmission Licensees' and Electricity Distribution Licensees' NIC Funding for that Relevant Year);
- (b) the net amounts that are to be transferred between the licensee and other electricity Transmission Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Relevant Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and
- (c) the manner in which and the timescale over which the net amounts referred to in paragraph (b) are to be transferred.

3I.19 The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 3I.18 of this condition.

Part E: The NIC Governance Document

3I.20 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.

3I.21 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

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

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- (d) arrangements to ensure that relevant matters the licensee has learned from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other electricity Transmission Licensees;
- (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);
- (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
- (g) any other matters relating to the regulation, governance, or administration of the NIC.

3I.22 Where provisions of the NIC Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the NIC Governance Document were part of this condition.

Part F: Procedure for issuing and revising the NIC Governance Document

3I.23 Before issuing the NIC Governance Document under this condition, the Authority, by notice given to the licensee and other electricity Transmission Licensees with a condition of similar effect to this condition in their licence, shall:

- (a) state that it proposes to issue the NIC Governance Document, and specify the date on which it proposes that the NIC Governance Document should take effect;
- (b) set out the text of the document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the notice) within which representations with respect to the proposed NIC Governance Document may be made.

3I.24 The Authority will consider any representations that are duly made and not withdrawn.

3I.25 The requirements of paragraphs 3I.23 and 3I.24 of this condition may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

3I.26 In paragraph 3I.23 of this condition, "issuing the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

Part G: Interpretation

3I.27 Defined terms used in this condition and set out in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further clarification that might be set out in the NIC Governance Document in relation to such terms.

Special Condition 3J. Transmission Investment for Renewable Generation

Part 1 – TIRG Revenue Adjustment Calculation

3J.1 For each TIRG Relevant Year t , $TIRG_t$ will be calculated in accordance with the following formula:

$$TIRG_t = \sum_{\text{all } i} TIRG_t^i$$

where:

$TIRG_t^i$ means the annual revenue allowance in TIRG Relevant Year t for each transmission investment project i specified in Annex A to this condition.

3J.2 For each TIRG Relevant Year t , the annual revenue allowance for each transmission investment project i specified in Annex A will be calculated in accordance with the following formula:

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

where:

$IPTIRG_t^i$ means the annual pre-construction and contingency revenue allowance for the transmission investment project i for the TIRG Relevant Years $t=p$ to $t=-1$ (where $p \leq -1$) and will be calculated in accordance with paragraph 3J.3 of this condition.

$TIRGIncAd_t^i$ means the sum of one or more preconstruction and contingency revenue allowance adjustments for a TIRG Income Adjusting Event and each revenue allowance adjustment will be determined by the Authority in accordance with paragraph 3J.4 of this condition.

$FTIRG_t^i$ means the annual construction revenue allowance for the transmission investment project i for the TIRG Relevant Years $t=0$ to $t=n$ and will be calculated in accordance with paragraph 3J.5 of this condition.

$ETIRG_t^i$ means the annual incentive revenue allowance for the transmission investment project i for the TIRG Relevant Years $t=n+1$ to $t=n+5$ and will be calculated in accordance with paragraph 3J.7; and

$ATIRG_t^i$ means the actual annual revenue allowance for the transmission investment project i for the TIRG Relevant Years $t=n+6$ to

$t=n+20$ and will be determined by the Authority in accordance with paragraph 3J.9 of this condition.

IPTIRG_t

3J.3 For the purposes of paragraph 3J.2 of this condition, the term IPTIRG_tⁱ will be calculated in accordance with the following formula:

$$\text{IPTIRG}_t^i = \text{CFTIRG}_t^i \times \text{RPIF}_t$$

where:

CFTIRG_tⁱ means the forecast pre-construction and contingency costs for the transmission investment project i for TIRG Relevant Years $t=p$ to $t=-1$ (where $p \leq -1$) and will have the value specified in Annex A to this condition for each TIRG Relevant Years t, and where no value is specified in Annex A to this condition for a TIRG Relevant Year t will have the value of zero; and

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

3J.4 For the purposes of this condition, a TIRG Income Adjusting Event means

- (a) an event or circumstance occurring in the pre- construction period that the Authority is satisfied causes costs and/or expenses to be incurred or saved in relation to the transmission investment project i, where the Authority is satisfied that those costs and/or expenses:
 - (i) have resulted in, or are expected to result in, a material increase or decrease to the forecast pre-construction and contingency costs for the transmission investment project i for TIRG Relevant Years $t=p$ to $t=-1$ (where $p \leq -1$) (CFTIRG_tⁱ);
 - (ii) have been, or are expected to be, efficiently incurred or saved; and
 - (iii) cannot otherwise be recovered under the TIRG revenue allowance provided under this condition.
- (b) Where the licensee considers, and can provide supporting evidence that, a TIRG Income Adjusting Event has occurred in respect of the transmission investment project i, then the licensee must give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event no longer than 3 months after the end of the TIRG Relevant Year t in which that event has occurred (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (c) A notice provided under subparagraph (b) must-give particulars of:
 - (i) the TIRG Income Adjusting Event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG Income Adjusting Event;

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- (ii) the costs and/or expenses that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
 - (iii) the amount of any material increase or decrease in the forecast preconstruction and contingency costs for the transmission investment project i for TIRG Relevant Years $t=p$ to $t=-1$ (where $p \leq -1$) ($CFTIRG_t$) that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of that increase or decrease has been calculated;
 - (iv) the reasons why the licensee considers that the costs and/or expenses cannot otherwise be recovered under the TIRG revenue allowance provided by this condition;
 - (v) the amount of any $TIRGIncAd_t^i$ income adjustment allowance proposed as a consequence of that event and how this $TIRGIncAd_t^i$ income adjustment allowance has been calculated; and
 - (vi) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (d) Where the Authority receives a notice under subparagraph (b), the Authority will determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG Income Adjusting Event has occurred in respect of the transmission investment project i ; and
 - (ii) a $TIRGIncAd_t^i$ income adjustment allowance in respect of the transmission investment project i .
- (e) Where the Authority determines under subparagraph (d) that a TIRG Income Adjusting Event has occurred in respect of the transmission investment project i , the $TIRGIncAd_t^i$ income adjustment allowance in respect of the transmission investment project i determined by the Authority under subparagraph (d) will be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG Income Adjusting Event had not occurred, and in all other cases the $TIRGIncAd_t^i$ income adjustment allowance in respect of the transmission investment project i determined by the Authority under subparagraph (d) will be zero.
- (f) Where the Authority makes a determination under this paragraph, the Authority will publish a notice stating the $TIRGIncAd_t^i$ income adjustment allowance for the transmission investment project i and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.
- (h) For the purposes of paragraph 3J.2, the term $TIRGIncAd_t^i$ will be the $TIRGIncAd_t^i$ income adjustment allowance for the transmission investment

project i determined by the Authority under subparagraph (d), and where the Authority has not made a determination under subparagraph (d) will be zero.

- (i) Where the licensee notifies the Authority of a TIRG Income Adjusting Event under subparagraph (b), the licensee must-ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

FTIRG_t

3J.5 For the purposes of paragraph 3J.2, the term FTIRG_tⁱ will be calculated in accordance with the following formula:

$$\text{FTIRG}_t^i = (\text{CCTIRG} \times (\text{FTIRGC}_t^i + \text{AFFTIRG}_t^i) \times \text{RPIF}_t) + (\text{FTIRGDepn}_t^i + \text{AFFTIRGDepn}_t^i) \times \text{RPIF}_t$$

where:

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

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

- (i) where the licensee has not been granted planning consent to build the transmission investment project i, FTIRGC_tⁱ will be zero; and
- (ii) where the licensee has been granted planning consent to build the transmission investment project i, FTIRGC_tⁱ will have the value specified in Annex A to this condition for each TIRG Relevant Year t, and where no value is specified in Annex A to this condition for a TIRG Relevant Year t will have the value of zero;

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

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

- $FTIRGDepn_t^i$ means the depreciation value for the transmission investment project i for each of the TIRG Relevant Years $t=0$ to $t=n$ and will be determined as follows:
- (i) where the licensee has not been granted planning consent to build the transmission investment project i, $FTIRGDepn_t^i$ will be zero; and
 - (ii) where the licensee has been granted planning consent to build the transmission investment project i, $FTIRGDepn_t^i$ will have the value specified in Annex A to this condition for each TIRG Relevant Years t, and where no value is specified in Annex A to this condition for a TIRG Relevant Year t will have the value of zero;
- $AFFTIRGDepn_t^i$ means one or more adjustment to the depreciation value for the transmission investment project i for the TIRG Relevant Years $t=0$ to $t=n$ ($FTIRGDepn_t^i$) as a result of a TIRG Asset Value Adjusting Event and each adjustment will be determined by the Authority in accordance with paragraph 3J.6 of this condition.

3J.6

- (a) For the purposes of this condition, a TIRG Asset Value Adjusting Event means relevant additional preconstruction works or a relevant amendment to the scope of construction works that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the transmission investment project i, where the Authority is satisfied that those costs and expenses:
 - (i) are expected to result in a material increase or decrease to the average asset value for the transmission investment project i for the TIRG Relevant Years $t=0$ to $t=n$ ($FTIRGC_t^i$);
 - (ii) are expected to be efficiently incurred or saved; and
 - (iii) cannot otherwise be recovered under the TIRG revenue allowance provided by this condition.
- (b) For the purposes of subparagraph (a):
 - (i) “relevant additional preconstruction works” means preconstruction works expected to be carried out by the licensee during the TIRG Relevant Years $t=0$ to $t=n$ as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent); and
 - (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that:

- a. is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent); or
 - b. is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project i that are identified by the licensee during preconstruction work.
- (c) Where the licensee considers, and can provide supporting evidence that, a TIRG Asset Value Adjusting Event has occurred in relation to the transmission investment project i, then the licensee must-give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG Relevant Years $t=0$ (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) must-be accompanied by a statement from independent technical advisors setting out the additional preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works / amended scope of construction works (as appropriate) and must-give particulars of:
 - (i) the TIRG Asset Value Adjusting Event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG Asset Value Adjusting Event;
 - (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
 - (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project i for TIRG Relevant Years $t=0$ to $t=n$ ($FTIRGC_i$) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
 - (iv) the reasons why the licensee considers that the costs and/or expenses cannot otherwise be recovered under the TIRG revenue allowance provided by this Special Condition;
 - (v) the amount of any $AFFTIRG_i^i$ adjustment proposed as a consequence of that event and how this $AFFTIRG_i^i$ adjustment has been calculated;
 - (vi) the amount of any increase or decrease in the depreciation value for the transmission investment project i for the TIRG Relevant Years $t=0$ to $t=n$ ($FTIRGDepn_i^i$) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;

- (vii) the amount of any AFFTIRGDepn_i^i adjustment proposed as a consequence of that event and how this AFFTIRGDepn_i^i adjustment has been calculated; and
 - (viii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority will determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG Asset Value Adjusting Event has occurred in respect of the transmission investment project i;
 - (ii) where the Authority determines that a TIRG Asset Value Adjusting Event has occurred in respect of the transmission investment project i, whether the transmission investment project i will remain economically efficient as a consequence of that TIRG Asset Value Adjusting Event;
 - (iii) a AFFTIRG_i^i adjustment in respect of the transmission investment project i; and
 - (iv) a AFFTIRGDepn_i^i adjustment in respect of the transmission investment project i;
- (f) Where the Authority determines under subparagraph (e) that a TIRG Asset Value Adjusting Event has occurred in respect of the transmission investment project i and that the transmission investment project i will remain economically efficient as a consequence of that TIRG Asset Value Adjusting Event, the AFFTIRG_i^i and AFFTIRGDepn_i^i adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) will be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG Asset Value Adjusting Event had not occurred, and in all other cases the AFFTIRG_i^i and AFFTIRGDepn_i^i adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) will be zero;
- (g) Where the Authority makes a determination under this paragraph, the Authority will publish a notice stating the AFFTIRG_i^i and AFFTIRGDepn_i^i adjustments for the transmission investment project i and the reasons for the determination;
- (h) The Authority may revoke a determination made under this paragraph with the consent of the licensee;
- (i) For the purposes of paragraph 3J.5 of this condition, the terms AFFTIRG_i^i and AFFTIRGDepn_i^i will be the AFFTIRG_i^i and AFFTIRGDepn_i^i adjustments for the transmission investment project i determined by the Authority under

subparagraph (e), and where the Authority has not made a determination under subparagraph (e) will be zero; and

- (j) Where the licensee notifies the Authority of a TIRG Asset Value Adjusting Event under subparagraph (c), the licensee must-ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

ETIRG_t

3J.7 For the purposes of paragraph 3J.2, the term ETIRG_tⁱ will be calculated in accordance with the following formula:

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

where:

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

ETIRGC_tⁱ means the average asset value for the transmission investment project i for each of the TIRG Relevant Years t=n+1 to t=n+5 and will have the value specified in Annex A to this condition for each TIRG Relevant Year t, and where no value is specified in Annex A to this condition for a TIRG Relevant Year t will have the value of zero.

SAFRTIRGⁱ means an adjustment factor to the average asset value for the transmission investment project i for each of the TIRG Relevant Years t=n+1 to t=n+5 (ETIRGC_tⁱ) and will have the value of 1 unless otherwise determined by the Authority by TIRG Relevant Year t=n+1 in accordance with the following formula:

$$SAFRTIRG^i = \frac{SAFTIRG^i}{ETIRGORAV^i}$$

where:

SAFTIRGⁱ means the opening asset value for the transmission investment project i determined by the Authority by TIRG Relevant Year t=n+1 in accordance with paragraph 3J.8 of this condition; and

ETIRGORAVⁱ means the opening regulated asset value for the transmission investment project i at TIRG Relevant Year t=n+1 and will have the value specified in Annex A to this condition.

| | |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| RPIF _t | has the value given to it by Part C of Special Condition 3A (Restriction of Transmission Network Revenue). |
| Dep _t ⁱ | means the annual depreciation allowance for TIRG Relevant Year t and will have the value specified in Annex A to this condition. |

3J.8

- (a) The Authority will determine (in consultation with the licensee and such other persons it considers necessary) the value of the term SAFTIRGⁱ with respect to the transmission investment project i by TIRG Relevant Year t=n+1 where the Authority has received a post construction expenditure report and a post construction technical report in respect of the transmission investment project i in accordance with Part 2 of this condition.
- (b) Where the Authority makes a determination under this paragraph, the Authority will have regard to the following:
 - (i) whether the final aggregate transmission investment expenditure set out in the post construction expenditure report has been efficiently incurred;
 - (ii) the extent to which the licensee has complied with the output measures specified in Annex A to this condition for the transmission investment project i as set out in the post construction technical report;
 - (iii) whether an adjustment has been made to the average asset value for the transmission investment project i for the TIRG Relevant Years t=0 to t=n under paragraph 3J.6 (AFFTIRG_tⁱ adjustment);
 - (iv) whether an adjustment has been made to the depreciation value for the transmission investment project i for the TIRG Relevant Years t=0 to t=n under paragraph 3J.6 (AFFTIRGDepn_tⁱ adjustment); and
 - (v) any other information the Authority considers to be relevant to the determination.
- (c) Where the Authority makes a determination under this paragraph, the Authority will publish a notice stating the SAFTIRGⁱ opening asset value for the transmission investment project i and the reasons for the determination.
- (d) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

ATIRG

- 3J.9 For the purposes of paragraph 3J.2 of this condition the term ATIRG_tⁱ will be determined by the Authority (in consultation with the licensee and such other persons the Authority considers necessary) by TIRG Relevant Year t=n+5 in accordance with the principle that efficiently incurred costs will be recoverable by the licensee.

Part 2 - Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation

- 3J.10 For each transmission investment project i specified in Annex A to this condition, the licensee must provide the Authority with the following:
- (a) during or prior to TIRG Relevant Year $t=0$, a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:
 - (i) the $TIRG_{t=0}$ output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project i ; and
 - (ii) the $TIRG_{t=n}$ forecast output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project i ;
 - (b) not later than three months after the end of each of the TIRG Relevant Years $t=p$ to $t=0$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a preconstruction expenditure report, accompanied by an auditor's statement, setting out an itemised report of the preconstruction expenditure incurred for the transmission investment project i during that TIRG Relevant Year t ;
 - (c) not later than three months after the end of each of the TIRG Relevant Years $t=1$ to $t=n$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a construction expenditure report accompanied by an auditor's statement, setting out an itemised report of the construction expenditure incurred for the transmission investment project i during that TIRG Relevant Year t ; and
 - (d) not later than three months after the end of TIRG Relevant Year $t=n$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):
 - (i) a post construction expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission investment project i , assessed against the average asset value for the transmission investment project i for TIRG Relevant Years $t=0$ to $t=n$ ($FTIRGC_i$); and
 - (ii) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Annex A to this condition.

- 3J.11 The Authority may require the licensee to provide it with such information in such form and within such time as it may reasonably request which is, in the Authority's opinion, necessary in order to carry out any of its functions under this condition.
- 3J.12 The output measures specified in Annex A to this condition may be amended in accordance with this paragraph.
- (a) For the purposes of this condition, an Output Measures Adjusting Event means a relevant amendment to the scope of the construction works (as defined in paragraph 3J.6(b)(ii) to this condition) which the Authority is satisfied is expected to cause a material change in the output measures specified in Annex A to this condition for the transmission investment project i.
 - (b) Where the licensee considers, and can provide supporting evidence that, an Output Measures Adjusting Event has occurred in relation to the transmission investment project i, then the licensee must give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG Relevant Year $t=0$ (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
 - (c) A notice provided under subparagraph (c) must be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and must give particulars of:
 - (i) the Output Measures Adjusting Event to which the notice relates and the reason(s) why the licensee considers that event to be an output measures adjusting event;
 - (ii) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and
 - (iii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
 - (d) Where the Authority receives a notice under subparagraph (c), the Authority will determine (after consultation with the licensee and such other persons it considers necessary):
 - (i) whether an Output Measures Adjusting Event has occurred in respect of the transmission investment project i; and
 - (ii) where the Authority determines that an Output Measures Adjusting Event has occurred in respect of the transmission investment project i, an output measures adjustment in respect of the transmission investment project.
 - (e) Where the Authority makes a determination under this paragraph, the Authority will publish a notice stating the output measures adjustment for the transmission investment project i and the reasons for the determination.
 - (f) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

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Annex A to Special Condition 3J Supplementary Provisions

National Grid

England – Scotland Interconnection

East coast and west coast reinforcement combined costs

Pre-construction, contingency and construction costs:

| Project costs (£ 000) 2009/10 prices | t=p | t=0 | t=1 | t=2 | t=3 | t=n |
|----------------------------------------------------------------------------|-----------|------------|------------|------------|------------|-------------|
| Forecast pre-construction and contingency costs (CFTIRGC ⁱ) | 2,275,000 | n/a | n/a | n/a | n/a | n/a |
| Forecast Construction Costs | | 13,974,000 | 29,238,000 | 34,605,000 | 29,170,000 | 13,768,000 |
| Average asset value during construction period (FTIRGC ⁱ) | n/a | 6,987,000 | 28,144,000 | 59,111,000 | 91,018,000 | 101,708,000 |
| Depreciation during Construction (FTIRGDepn ⁱ) | | 0 | 693,000 | 2,180,000 | 4,074,000 | 5,204,000 |

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Post construction revenue:

| Project costs (£) 2009/10 prices | t=n+1 | t=n+2 | t=n+3 | t=n+4 | t=n+5 |
|-------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Opening RAV (ETIRGORAV ⁱ) | 105,983,000 | | | | |
| Dep ⁱ | 5,299,000 | 5,414,000 | 5,414,000 | 5,414,000 | 5,414,000 |
| Average asset value during efficiency period (ETIRGC ⁱ) | 103,333,000 | 100,153,000 | 94,739,000 | 89,326,000 | 83,912,000 |

Output measures:

East coast interconnection

All figures are equivalent reactances (X) of the two circuits in each branch connected in parallel in % on 100MVA. The three branches are:

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

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

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

| Scope of work | Impedance as at 31 March 2005 | Forecast impedance prior to construction start date | Forecast impedance post construction |
|-----------------------------|-------------------------------|-----------------------------------------------------|--------------------------------------|
| Reduction in line impedance | | | |
| Line A | 0.883 | 0.883 | 0.721 |
| Line B | 0.070 | 0.070 | 0.059 |
| Line C | N/A | N/A | 1.128 |
| Combined impedance | 1.349 | 1.349 | 1.045 |

| Scope of work | Circuit ratings as at 31 March 2005 | Forecast circuit ratings prior to construction start date | Forecast circuit ratings post construction |
|---------------|-------------------------------------|-----------------------------------------------------------|--------------------------------------------|
| | Winter Summer (MVA) (MVA) | Winter Summer (MVA) (MVA) | Winter Summer (MVA) (MVA) |
| Line A | 1390 1110 | 1390 1110 | 3070 2420 |
| Line B | 1390 1110 | 1390 1110 | 3070 2420 |
| Line C | 955 760 | 955 760 | 1390 1110 |

All circuit ratings are post-fault continuous capabilities at 50 degrees centigrade operation.

The Line C rating in advance of construction reflects operation at 275kV whereas the rating after construction reflects 400kV operation.

Circuit thermal ratings may differ from the conductor ratings due to limitations in switchgear, down droppers or protection.

West coast interconnection

| Project scope | Capability as at 31 March 2005 | Forecast capability one year prior to construction | Forecast capability post construction |
|------------------------------------|--------------------------------|----------------------------------------------------|---------------------------------------|
| | kV (MVA) | kV (MVA) | kV (MVA) |
| Line upgrade from Scotland-England | 275 (1130) | 275 (1130) | 400 (2010) |

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| | | | |
|--------------------------------|--|--|--|
| border to Harker substation | | | |
|--------------------------------|--|--|--|

England-Scotland interconnection– reactive compensation

Install a 150Mvar mechanically switched capacitor bank at a location to be chosen by the licensee so as to maximise its effectiveness given the particular reinforcements to be undertaken in Scotland.

Special Condition 3K. Allowances in respect of a Security Period

Introduction

3K.1 The purpose of this condition is to set out the process for the licensee to recover Allowed Security Costs in the event of a Security Period.

Part A: Process for the recovery of Security Costs

3K.2 At any time during a Security Period, the licensee may give notice in writing to the Authority suspending, with effect from the date of receipt of the notice by the Authority, application of the Relevant TO Special Conditions or Relevant SO Special Conditions as may be specified in the notice, for the remaining duration of the Security Period.

3K.3 At any time during a Security Period, the Authority may (having regard to its duties) by means of a direction:

- (a) suspend or modify for the remaining duration of the Security Period the Relevant TO Special Conditions or Relevant SO Special Conditions or any part or parts thereof; or
- (b) introduce for the remaining duration of the Security Period new Special Conditions;

in either case, so as to make such provision as in the opinion of the Authority is necessary or appropriate to enable the licensee to recover by means of an appropriate equitable increase on all of the charges made in the course of the provision of Transmission Network Services an amount estimated as being equal to the licensee's Allowed Security Costs attributable to the provision of Transmission Network Services during such period. The licensee must comply with the terms of any directions so issued.

3K.4 Subject to paragraphs 3K.5 and 3K.7 of this condition, the licensee is entitled in any Relevant Year to recover an aggregate amount equal to its Allowed Security Costs attributable to the provision of Transmission Network Services in that year or (in so far as not previously recovered) any previous year, by means of appropriate equitable increases on all of the charges made by the licensee in the course of the provision of Transmission Network Services.

3K.5 Paragraph 3K.4 of this condition will not apply in so far as such Allowed Security Costs:

- (a) were otherwise recovered by the licensee; or
- (b) were taken into account by the Authority in setting the Special Conditions by means of a direction issued under paragraph 3K.3 of this condition.

3K.6 Following the end of each Relevant Year the licensee must provide to the Authority details in respect of that Relevant Year of:

- (a) the licensee's estimate of Allowed Security Costs;
- (b) the aggregate amounts charged under paragraph 3K.4 of this condition on account of the licensee's Allowed Security Costs; and

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- (c) the basis and calculations underlying the increases in charges made by the licensee in its provision of Transmission Network Services together with an explanation of the basis of attribution of Allowed Security Costs to the provision of Transmission Network Services.
- 3K.7 Where the Authority is satisfied that the licensee has recovered amounts in excess of the Allowed Security Costs attributable to the provision of Transmission Network Services ,the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers in receipt of Transmission Network Services for the excess amounts charged to them, and the licensee must comply with any directions so issued provided that if the excess amounts relate to Allowed Security Costs paid to any authorised electricity operator, the licensee is not be obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator.
- 3K.8 No amounts charged by the licensee under this condition (whether or not subsequently required to be reimbursed) will be taken into account for the purpose of applying the provisions of Special Condition 3A (Restriction of Transmission Network Revenue).

Special Condition 3L. Pre-construction Engineering Outputs for prospective Strategic Wider Works

Introduction

3L.1. The purpose of this condition is to specify the baseline expenditure for Pre-construction Engineering (PE) Outputs the licensee may deliver during the Price Control Period.

Part A: Baseline expenditure for Pre-construction Engineering Outputs

3L.2. PE Outputs are the deliverables from Pre-construction Engineering works the licensee has undertaken during the Price Control Period in order to develop detailed delivery plans for a prospective Strategic Wider Works (SWW) Output which the licensee may propose to deliver and which the Authority has provision to assess and determine under Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and the Assessment of Allowed Expenditure).

3L.3. Table 1 below sets out the amount of baseline expenditure for the licensee to deliver economical and efficient PE Outputs in relation to the specified prospective SWW.

Table 1: Baseline expenditure for Pre-construction Engineering Outputs

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

3L.4. The baseline expenditure figures set out in Table 1 of this condition have been reflected in the licensee's Opening Base Revenue Allowance set out against the licensee's name in Appendix 1 to Special Condition 3A (Restriction of Transmission Network Revenue).

3L.5. The licensee must report annually to the Authority on progress in delivering the PE Outputs for the prospective SWW set out in Table 1 of this condition and actual expenditure incurred in accordance with the requirements of Standard Condition B15 (Regulatory Instructions and Guidance).

Part B: Substitution of PE Outputs

3L.6. This Part provides for an Output Substitution (OS) to have effect in relation to PE Outputs specified in Part A of this condition.

3L.7. For the purposes of this condition, an OS arises where the Authority is satisfied that:

- (a) there has been a significant change in the future outlook for the type, location and timing of generation connections and/or demand requirements compared to the planning scenarios at the outset of the Price Control Period; and/or
- (b) that it is no longer economical and efficient for the licensee to deliver PE Outputs for one or more of the prospective SWW in Table 1 of this condition such that the PE Output should be deferred indefinitely or an alternative PE Output is required instead.

Part C: Assessment of a PE Output Substitution

3L.8. This Part C sets out a procedure that is to be applied for the purposes of enabling the Authority:

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

(i) Licensee's notice to the Authority

3L.9. Where the licensee considers that there has been a significant change in the future outlook for generation connections or demand requirements and that to deliver a PE Output for a prospective SWW in Table 1 of Part A of this condition is no longer economical and efficient the licensee must give notice to the Authority as soon as is reasonably practicable.

3L.10. A notice under paragraph 3L.9 of this condition must include:

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

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

- (a) a statement about whether the OS proposed by the licensee has any implications for other PE Outputs specified in Part A of this condition; and
- (b) any other analysis or information that the licensee considers relevant to the Authority's assessment of the matter.

(ii) Determination by the Authority

3L.12. Where the Authority receives notice from the licensee under paragraph 3L.9 of this condition, it will determine:

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

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(iii) Revocation

3L.13. The Authority may, with the consent of the licensee, revoke a determination made under paragraph 3L.12 of this condition.

Part D: Modification to amend the details of PE Outputs

3L.14. The Authority may direct modifications to Table 1 in Part A of this condition in order to amend details of a PE Output in accordance with the provisions of this Part D.

3L.15. The reason for modifying details of outputs referred to in paragraph 3L.14 of this condition will arise from an OS defined in Part B and determined by the Authority in accordance with Part C of this condition.

3L.16. A direction issued by the Authority under paragraph 3L.14 of this condition is of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 3L.14 of this condition:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) specifying, where appropriate, any PE Output Substitutions that have been determined in accordance with Part C of this condition; and
 - (iii) specifying the time (which must not be less than a period of 28 days) within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

Part E: Ex post adjustments where PE Outputs have not been delivered

3L.17. In the event the licensee does not deliver or only partially delivers a PE Output for a prospective SWW set out in Part A of this condition by the end of the Price Control Period, the Authority may adjust baseline expenditure in relation to the PE Output to ensure only efficiently incurred costs are recovered.

Chapter 4: System Operator – Revenue Restriction

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Special Condition 4A. Restriction of System Operator Internal Revenue

Introduction

4A.1 The purpose of this condition is as follows:

- (c) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its internal costs in relation to Balancing Services Activity and its additional internal costs associated with preparing for the performance of EMR Functions; and
- (d) to set out the obligations of the licensee in respect of those charging restrictions.

Part A: Licensee's obligation

4A.2 The licensee must use its best endeavours to ensure that, in Relevant Year t , the revenue collected by the licensee from the Balancing Services Activity associated with internal costs (i.e. excluding the revenue associated with procuring and using balancing services) does not exceed the amount derived in accordance with the Maximum SO Internal Revenue (SOI) formula set out in Part B below.

Part B: Calculation of Maximum SO Internal Revenue

4A.3 The Maximum SO Internal Revenue is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$SOI_t = (SOPU_t + SOMOD_t + SOEMRINC_t + SOEMR_t + SOEMRCO_t + SOTRU_t) \times RPIF_t$$

4A.4 In the Principal Formula:

- SOI_t means the amount of Maximum SO Internal Revenue in Relevant Year t .
- $SOPU_t$ means the amount set out against the licensee's name in Appendix 1 of this condition and represents the SO Opening Base Revenue Allowance in Relevant Year t determined by the Authority.
- $SOMOD_t$ has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year is the value of the incremental change for Relevant Year t from the licensee's SO Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- $SOEMRINC_t$ means the adjustment in Relevant Year t to the licensee's Maximum SO Internal Revenue (either positive or negative) as a result of the financial incentives placed upon the licensee to undertake the EMR Functions, collectively referred to as the System Operator Electricity

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Market Reform Incentives as derived in accordance with Special Condition 4L (Financial Incentives on EMR).

- SOEMR_t** means the initial amount of allowed revenue for the licensee’s internal costs associated with preparing for the performance of EMR Functions in Relevant Year t and has the value as set out in Appendix 2.
- SOEMRCO_t** means the adjustment to allowed revenue in Relevant Year t and will be determined by the Authority as a result of a calculation which compares SOEMR_t with the licensee’s actual incremental and efficiently incurred internal costs associated with preparing for the performance of EMR Functions that are conferred upon the licensee. SOEMRCO_t will have the value of zero until such time as the EMR Functions either are or are not conferred on the licensee under the Energy Act 2013, thereafter:
- i. where the EMR Functions are not conferred on the licensee then SOEMRCO_t will have a value which is equal and opposite to the value for SOEMR_t so that the net impact of these two terms on SOI_t is zero, or
 - ii. where the EMR Functions are conferred on the licensee then SOEMRCO_t will be calculated by 31 March 2016 in respect of Relevant Year 2016/17 and will have the value of zero for all other Relevant Years.
- SOTRU_t** has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year means the revenue adjustment made in Relevant Year t in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4A.5 of this condition.
- RPIF_t** has the value given to it by Part C of Special Condition 3A.

Part C: Calculation of SOTRU_t

4A.5 For the purposes of the Principal Formula, SOTRU_t is derived in accordance with the following formula:

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

4A.6 In the above formula for SOTRU_t:

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

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

$SOREV_{t-2}$ means the amount (in 2009/10 prices), for Relevant Year t-2, of the combined value of all revenue adjustments under the Relevant SO Special Conditions that are indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 4A.7 or 4A.8 of this condition.

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

4A.7 For the purposes of paragraph 4A.6 of this condition, but subject to paragraph 4A.8, $SOREV_{t-2}$ is derived in accordance with the following formula:

$$SOREV_{t-2} = SOPSU_{t-2} + SOMOD_{t-2} + SOEMR_{t-2} + SOEMRINC_{t-2} + SOEMRCO_{t-2} + SOTRU_{t-2}$$

where:

$SOPSU_{t-2}$ means an amount set out against the licensee's name in Appendix 1 of this condition and represents the SO Opening Base Revenue Allowance in Relevant Year t-2 determined by the Authority.

$SOMOD_{t-2}$ means the value of the incremental change for Relevant Year t-2 from the licensee's SO Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B.

$SOTRU_{t-2}$ means the revenue adjustment made in Relevant Year t-2 in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4A.5 of this condition.

$SOEMR_{t-2}$ means the initial amount of allowed revenue for the licensee's internal costs associated with preparing for the performance of EMR Functions and has the value as set out in Appendix 2 for the Relevant Year t-2.

$SOEMRINC_{t-2}$ means the adjustment made in Relevant Year t-2 to the licensee's Maximum SO Internal Revenue (either positive or negative) as a result of the financial incentives placed upon the licensee to undertake the EMR Functions, collectively referred to as the System Operator Electricity Market Reform Incentives as derived in accordance with Special Condition 4L.

$SOEMRCO_{t-2}$ means the adjustment to allowed revenue determined by the Authority as a result of a calculation which compares $SOEMR_t$ with the licensee's actual incremental and efficiently internal costs incurred associated with preparing for the performance of EMR Functions that are conferred upon the licensee.

4A.8 For the purposes of paragraph 4A.6 of this condition, in Relevant Year 2014/15 only $SOREV_{t-2}$ is derived in accordance with the following formula:

$$SOREV_{t-2} = \frac{CSOC_{t-2} + NC_{t-2}}{RPIF_{t-2}}$$

where:

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CSOC_{t-2} means, in respect of the Relevant Year commencing 1 April 2012, the Base Transmission Revenues derived in accordance with Part 2 (ii) of Special Condition AA5A (Balancing Services Activity Revenue Restriction) of this licence in the form in which it was in force at 31 March 2013.

NC_{t-2} means, in respect of the Relevant Year commencing 1 April 2012, the non-incentivised costs as derived in accordance with Part 2 (ii) of Special Condition AA5A of this licence in the form in which it was in force at 31 March 2013.

Part D: Calculation of SOEMRCO_t

4A.9 SOEMRCO_t will be determined, using 2009/10 prices, by comparing the actual efficient incremental costs incurred by the licensee in preparing for the performance of EMR Functions with the sum allowed for SOEMR_t. The calculation will be performed by using a workbook agreed between the licensee and the Authority.

4A.10 The value of SOEMRCO_t as determined by the Authority in accordance with condition 4A.9, will be directed by the Authority by 31 March 2016.

Part E: Interpretation

For the purposes of this condition ‘EMR Functions’ has the same meaning as in Chapter 5 of the Energy Act 2013.

Appendix 1

Value of the SOPU_t term (2009/10 prices)

(see paragraph 4A.4 of this condition)

| Licensee | SOPU(£m) | | | | | | | |
|--------------------------------------------|----------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| National Grid Electricity Transmission plc | 113.976 | 113.533 | 114.357 | 116.705 | 122.833 | 117.524 | 124.731 | 126.191 |

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Appendix 2

Value of the SOEMR_t term (2009/10 prices)

(see paragraph 4A.4 of this condition)

| Licensee | SOEMR _t (£m) | | | | | | | |
|--------------------------------------------|-------------------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| National Grid Electricity Transmission plc | 0.0 | 14.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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Special Condition 4B: Balancing Services Activity Conditions: Interpretation

- 4B.1 In this Special Condition and in Special Conditions 4C (Balancing Services Activity Revenue Restriction on External Costs) to 4K (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs) inclusive, all revenue shall be measured on an accruals basis, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
- 4B.2 Any term used in the formulae appearing in Special Conditions 4C to 4K inclusive and defined for the purposes of those formulae shall have the same meaning if used in any other formulae in those Special Conditions.
- 4B.3 In this Special Condition and in Special Conditions 4C to 4K, any cost, charge, payment or amount may either be positive or negative.

Special Condition 4C: Balancing Services Activity Revenue Restriction on External Costs

Part A: Balancing services activity revenue restriction on external costs

4C.1 The licensee shall use its best endeavours to ensure that in respect of Relevant Year t the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + IncPayExt_t + BSC_t + FIIR_t + SOTOC_t + LBS_t$$

where:

$BXext_t$ represents the maximum allowed revenue derived in Relevant Year t from and associated with procuring and using balancing services;

$CSOBM_t$ which represents the cost to the licensee of bids and offers in the Balancing Mechanism (excluding those relating to Supplemental Balancing Reserve and Demand Side Balancing Reserve) accepted by the licensee in Relevant Year t less the total non-delivery charge for that Relevant Year, is the sum across Relevant Year t of the values of $CSOBM_j$ (being the daily System Operator BM cashflow for each settlement period j as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001) less any costs incurred within these values of $CSOBM_j$ relating to Supplemental Balancing Reserve and Demand Side Balancing Reserve;

$BSCC_t$ means the costs to the licensee of contracts for the availability or use of balancing services during the Relevant Year t, excluding costs within $CSOBM_t$, LBS_t and BSC_t but including charges made by the licensee for the provision of balancing services to itself in the Relevant Year t;

$TotAdj_t$ means the amount of any adjustment to be made during the Relevant Year t as provided in paragraph 4C.2;

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| | |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| OM _t | means an amount representing the revenue from the provision of balancing services to others during the Relevant Year t, calculated in accordance with paragraph 4C.10; |
| IncPayExt _t | means an incentive payment for Relevant Year t calculated in accordance with paragraph 4C.11; |
| SOTOC _t | means the SO-TO cost allowance term in each Relevant Year t calculated in accordance with Special Condition 4J (SO-TO Mechanism); |
| BSC _t | means the allowed revenue derived in Relevant Year t from and associated with Black Start services in accordance with Special Condition 4G (Black Start Allowed Revenue); |
| FIIR _t | means the incentive payment which the licensee may derive from the forecasting incentive for Wind Generation Output and National Demand in Relevant Year t in accordance with Special Condition 4H (Forecasting incentive); |
| LBS _t | means the allowed revenue derived in Relevant Year t from and associated with procuring and using Demand Side Balancing Reserve and Supplemental Balancing Reserve services in accordance with Special Condition 4K (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs); and |
| j | shall mean a settlement period (being half an hour) as defined in the BSC. |

Part B: Balancing Services Activity adjustments

4C.2 For the purposes of paragraph 4C.1, the term TotAdj_t shall be derived from the following formula:

$$\text{TotAdj}_t = \text{ET}_t + \text{IncAdj}_t$$

where:

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ET_t means the amount of any adjustment to be made during the Relevant Year t in respect of any Relevant Year prior to Relevant Year t as provided in paragraph 4C.3.

$IncAdj_t$ means the amount of any adjustment to be made during the Relevant Year t in respect of any of the six Relevant Years prior to Relevant Year t as provided in paragraph 4C.4,

4C.3 For the purposes of paragraph 4C.2, the term ET_t which relates to prior period adjustments in respect of the Relevant Year t shall mean:

(a) the costs, whether positive or negative, to the licensee of:

(i) bids and offers in the Balancing Mechanism (excluding those relating to Supplemental Balancing Reserve and Demand Side Balancing Reserve) accepted by the licensee in any period before Relevant Year t less the total non-delivery charge for that period; and

(ii) contracts for the availability or use of balancing services during any period before Relevant Year t , excluding costs within $CSOBM_t$ and LBS_t for that period, but including charges made by the licensee for the provision of balancing services to itself in that period;

in each case after deducting such costs to the extent that they have been taken into account in any Relevant Year in computing the terms $CSOBM_t$ or $BSCC_t$; and

(b) any amount within the term ET_t as defined in this licence in the form it was in on 1 April 2000 whether as then defined or as now defined.

4C.4 For the purposes of paragraph 4C.2, the term $IncAdj_t$ shall mean incentive adjustments in respect of Relevant Year t where all of the following criteria have been fulfilled:

(a) where there has been one or more related errors for the same event (for the purposes of this Part B the “error”) in the calculation of the term $IncPayExt_t$ in one of the six Relevant Years prior to Relevant Year t where one of the following criteria have been fulfilled:

(i) the error in the calculation of the term $IncPayExt_t$ was caused by or occurred as a result of an action or inaction of the licensee (including any

employees, agents, contractors or advisers of the licensee), Affiliate or Related Undertaking which, if corrected, results in a negative adjustment to the term $IncAdj_t$; or

(ii) the error in the calculation of the term $IncPayExt_t$ was caused by or occurred as a result of an action or inaction of a person other than the licensee (including any employees, agents, contractors or advisers of such person), which, if corrected, results in a positive or negative adjustment to the term $IncAdj_t$;

(b) the absolute value of the adjustment for each error in sub-paragraph 4C.4(a) (whether positive negative) is greater than the value of one percent of the upper limit of the term $IncPayExt_t$ in the Relevant Year in which the error occurred; and

(c) the cumulative adjustment for the errors in sub-paragraph 4C.4(a) in a Relevant Year do not lead to payments to or from the licensee outside of the scheme cap and scheme collar as set out in Table 3 in paragraph 4C.29 of this condition, for the Relevant Year in which the error occurred.

4C.5 The licensee shall give notice to the Authority as soon as reasonably practicable and in any event no later than 10 working days after becoming aware of any error that meets the criteria laid out in paragraph 4C.4 in the calculation of the term $IncPayExt_t$ in any of the six Relevant Years prior to Relevant Year t .

4C.6 Unless the Authority directs otherwise, where the licensee gives notice to the Authority pursuant to paragraph 4C.5, the licensee shall provide the Authority with a written report on any proposed error within two months of such notice, containing the following:

(a) evidence of how an error identified by the licensee meets the criteria set out in paragraph 4C.4;

(b) the proposed value of the term $IncAdj_t$ and evidence of how a proposed correction is consistent with this licence condition and the SO Methodologies established under paragraph 4C.26 (and in the case of the SO Methodologies, those in effect at the time when the error was made); or

(c) any other information that is relevant for calculating the value of the term $IncAdj_t$.

4C.7 On receiving a report pursuant paragraph 4C.6, the Authority will have three months to direct that the term $IncAdj_t$ shall not take the value proposed by the licensee pursuant to sub-paragraph 4C.6(b) but shall take an alternative value.

4C.8 If the Authority has not made a direction under paragraph 4C.7 within three months of the date on which the report was provided to the Authority pursuant to paragraph 4C.6, then the term $IncAdj_t$ shall take the value proposed by the licensee in the report provided to the Authority.

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4C.9 If the Authority requests any further information from the licensee during the three month period under paragraph 4C.7, the period will stop while the licensee compiles that information and will not commence again until the Authority receives the information requested.

Part C: Provision of balancing services to others

4C.10 For the purposes of paragraph 4C.1, OM_t (the amount representing the revenue from the provision of balancing services to others) shall be the sum of:

- (a) the total amount (exclusive of interest and value added tax attributable thereto) recovered by the licensee in respect of Relevant Year t under any agreements entered into between an electricity supplier (being the holder of a supply licence granted or treated as granted under Section 6(1)(d) of the Act) or network operator (as defined in the Grid Code) and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a user system (as defined in the Grid Code) are charged to that electricity supplier or network operator (as defined in the Grid Code); and
- (b) the total costs (exclusive of interest and value added tax attributable thereto) incurred by the licensee in respect of Relevant Year t which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the National Electricity Transmission System or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 4C.10(a) of this Special Condition) or network operator (as defined in the Grid Code).

Part D: Determination of incentive payments on external costs

4C.11 For the purposes of paragraph 4C.1, the term $IncPayExt_t$ shall be derived from the following formula:

$$IncPayExt_t = [SF_t (MT_t - IBC_t) + CB_t]$$

where:

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SF_t which is a Balancing Services Activity sharing factor in respect of Relevant Year t, has the value specified against the relevant value of IBC_t for the Relevant Year t in the column headed SF_t in Table 3 in paragraph 4C.29.

MT_t which is a target for Balancing Services Activity incentivised external costs in respect of Relevant Year t, has the value specified against the relevant value of IBC_t for the Relevant Year t in the column headed MT_t in Table 3 in paragraph 4C.29.

IBC_t which is the cost of balancing services on which the licensee is incentivised during Relevant Year t, which is calculated in accordance with the formula given in paragraph 4C.12.

CB_t which is a balancing services sharing factor offset in respect of Relevant Year t, has the value specified against the relevant value of IBC_t for the Relevant Year t in the column headed CB_t in Table 3 in paragraph 4C.29.

4C.12 For the purposes of paragraph 4C.11, the term IBC_t in respect of Relevant Year t shall be calculated in accordance with the following formula:

$$IBC_t = CSOBM_t + BSCC_t - RT_t - OM_t$$

where:

RT_t means the amount of any allowed income adjustments given by paragraph 4C.23

Part E: Income adjusting events under the Balancing Services Activity revenue restriction on external costs

4C.13 In Relevant Year t, an income adjusting event is any of the following:

- (a) an event or circumstance constituting force majeure under the BSC;
- (b) an event or circumstance constituting force majeure under the CUSC;
- (c) a Security Period;

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- (d) (where the event or circumstance takes place in Relevant Year t or Relevant Year t-1) an unforeseen event or circumstance other than those listed above which leads to consequences beyond the reasonable control of the licensee which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with Part E2 of this condition; and
- (e) (where the event or circumstance takes place in Period p) an event or circumstance other than those listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with Part E2 of this condition.

where the income adjusting event or circumstance has:

- (a) increased or decreased the value of IBC_t by more than £10,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 4C.13(c) above; or
- (b) in the Period p, in which the income adjusting event had occurred, increased or decreased the value of IBC_p (bearing the meaning of that term in this licence as at 31 March 2013) by more than £2,000,000.

4C.14 For the purposes of the period 1 April 2015 to 31 March 2017, events or circumstances arising directly from the implementation or otherwise of the following proposed modifications (both the original and any alternative unless otherwise specified) listed in Tables 1 and 2 below shall not qualify as an income adjusting event for the purpose of paragraph 4C.13 above:

Table 1:

| BSC Modification Proposal | BSC Modification Title (as entitled by the proposer of the modification) |
|----------------------------------|---------------------------------------------------------------------------------|
| None applicable | |

Table 2:

| CUSC Modification Proposal | CUSC Modification Title (as entitled by the proposer of the modification) |
|-----------------------------------|----------------------------------------------------------------------------------|
| None applicable | |

Part E1: Notice of proposed income adjusting event

4C.15 Where the licensee considers, and can provide supporting evidence that, in respect of the Relevant Year in which the event or circumstance occurred or Period p, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.

4C.16 Where any other Party (as defined in the BSC) considers, and can provide supporting evidence that, in respect of the Relevant Year in which the event or circumstance occurred or Period p, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then that Party may give notice of this event to the Authority.

4C.17 A notice provided to the Authority under paragraphs 4C.15 or 4C.16 must, in the case of the licensee, and should, in so far as is practicable in the case of any other Party, give particulars of:

- (a) the event to which the notice relates and the reason(s) why the person giving the notice considers this event to be an income adjusting event;
- (b) the amount of any change in costs and/or expenses that can be demonstrated by the person giving the notice to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
- (c) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
- (d) any other analysis or information which the person submitting the notice considers to be sufficient to enable the Authority and the relevant parties to fully assess the event to which the notice relates.

4C.18 If the Authority considers that the analysis or information provided in sub-paragraphs 4C.17(a) to 4C.17(d) 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 request that

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the supporting evidence be supplemented with additional information that it considers appropriate.

- 4C.19 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 Period p or the Relevant Year t in which the income adjusting event occurred.
- 4C.20 The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
- 4C.21 Any notice submitted to the Authority under either paragraphs 4C.15 or 4C.16 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 4C.21(a) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

Part E2: The Authority's determination

- 4C.22 Following consultation with relevant parties, including the licensee, BSC Parties and CUSC Parties, the Authority shall determine:
- (a) whether any or all of the costs and/or expenses given in a notice pursuant to paragraphs 4C.15 or 4C.16 were caused or saved by an income adjusting event; and
 - (b) whether the event or circumstance has increased or decreased the value of IBC_t by more than the threshold amount, save in the case of sub-paragraph 4C.13(c) where the threshold amount shall not apply; or
 - (c) in respect of an event occurring in Period p, whether the event or circumstance has increased or decreased the value of IBC_p (bearing the meaning of that term in this licence as at 31 March 2013) by more than £2,000,000; and
 - (d) 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

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practicable, the same as if that income adjusting event had not taken place, and if not, what allowed value of income adjustment would secure that effect.

- 4C.23 In relation to the Relevant Year t or Period p , the allowed income adjustment shall be:
- (a) the value determined by the Authority under paragraph 4C.22 above; or
 - (b) if the Authority has not made a determination under 4C.22 above within three months 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 sub-paragraph 4C.17(c); or
 - (c) in all other cases zero, including situations where the Authority has not made a determination under 4C.22 above within three months of the date on which notice of an income adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the relevant parties that the Authority considers that the analysis or information provided in accordance with paragraphs 4C.17 and 4C.18 is insufficient to enable the Authority and relevant parties to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.

4C.24 The Authority's decision in relation to any notice given under paragraphs 4C.15 or 4C.16 shall be in writing, shall be copied to the licensee and shall be in the public domain.

4C.25 The Authority may 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. 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.

Part F: SO Methodologies

- 4C.26 The licensee shall, in respect of Relevant Year t , establish, and publish the following SO Methodologies as approved by the Authority for determining Modelled Target Costs $_t$ (as defined in paragraph 4C.31):
- (a) a methodology for determining the ex-ante or ex-post treatment of modelling inputs;
 - (b) a methodology for modelling the costs of managing Transmission Constraints; and

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(c) a methodology for the modelling of energy costs.

4C.27 The licensee shall, unless the Authority otherwise directs:

- (a) submit by the next working day following this modified condition coming into effect, the SO Methodologies, the SO Models and the Ex-Ante Data to the Authority for approval; and
- (b) publish the SO Methodologies as soon as practicably possible after such approval by the Authority under paragraph 4C. 27(a).

4C.28 The licensee shall, at the same time as it submits the SO Methodologies, SO Models and the Ex-Ante Data in accordance sub paragraph 4C.27(a) (or such later date as the Authority may direct), submit to the Authority a report prepared by an appropriate third-party independent expert setting out whether, in the view of that independent third-party, the:

- (a) SO Methodologies provide an accurate representation of the expected economic and efficient incentivised balancing services costs;
- (b) calculations in the SO Methodologies are accurate;
- (c) the SO Models are an accurate representation of the SO Methodologies; and

the Ex-Ante Data in the SO Models provide an accurate representation of those attributes expected by an economic and efficient SO.

Part G: Terms used in the Balancing Services Activity revenue restriction

4C.29 For the purpose of 4C.11 of Part D of this condition, the terms MT_t , SF_t and CB_t shall be selected against the appropriate value of IBC_t (which shall be determined in accordance with paragraph 4C.12 of Part D of this condition) from Table 3 below:

Table 3:

| IBC_t (£million) | MT_t (£million) | SF_t | CB_t (£million) |
|--------------------------------------------------------------------------------|------------------------------|--------|-------------------|
| $IBC_t <$ (Incentive Target $Cost_t - 100$) | 0 | 0 | 10 |
| $(Incentive Target Cost_t - 100) \leq IBC_t <$ (Incentive Target $Cost_t$) | Incentive Target $Cost_t$ | 10% | 0 |

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| IBC_t (£million) | MT_t (£million) | SF_t | CB_t (£million) |
|--------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------|----------------------------------|
| (Incentive Target Cost _t) = IBC _t | IBC _t | 0 | 0 |
| (Incentive Target Cost _t) <= IBC _t < (Incentive Target Cost _t + 100) | Incentive Target Cost _t | 10% | 0 |
| IBC _t >= (Incentive Target Cost _t + 100) | 0 | 0 | - 10 |

4C.30 For the purposes of paragraph 4C.29, Incentive Target Cost (in £ million) in respect of Relevant Year t shall be calculated in accordance with the following formula:

$$Incentive\ Target\ cost_t = \sum_{m=1}^{12} Incentive\ Target\ cost_m$$

4C.31 For the purpose of paragraph 4C.30 of this condition, the terms Incentive Target Cost_m must be selected against the appropriate value of Modelled Target Cost_m from Table 4 below, unless otherwise directed by the Authority under paragraph 4C.32:

Table 4:

| Modelled Target Cost_m (£million) | Incentive Target Cost_m |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
| Modelled Target Cost _m > 2σ _{cost} + Historical Balancing Cost _m | IBC _m |
| (Historical Balancing Cost _m - 2σ _{cost} <= Modelled Target Cost _m <= (2σ _{cost} + Historical Balancing Cost _m) | Modelled Target Cost _m |
| Modelled Target Cost _m < (Historical Balancing Cost _m - 2σ _{cost}) | IBC _m -8.33 |

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where:

| | |
|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Modelled Target Costs _m | means the target cost (in £ million) to the licensee of procuring and using balancing services (being the external costs of the Balancing Services Activity) derived in accordance with the SO Methodologies referred to in paragraph 4C.26 in respect of month m; and |
| Historical Balancing Costs _m +2σ _{cost} | means two standard deviations above the outturn costs for that month for the period Relevant Year _{t-6} to Relevant Year _{t-1} |
| Historical Balancing Costs _m -2σ _{cost} | means two standard deviations below the outturn costs for that month for the period Relevant Year _{t-6} to Relevant Year _{t-1} |
| m _t | means a calendar month in Relevant Year t according to the financial year (April equals 1 and March equals 12) |

4C.32 The Authority will direct for the Incentive Target Cost_m to take the value of Modelled Target Cost_m if the Authority considers that the licensee has provided sufficient evidence as to justify that the target deviation from the Historical Balancing Costs is not due to a Model Inaccuracy.

4C.33 In respect of any Relevant Year t commencing on or after 1 April 2018, the terms MT_t, SF_t and CB_t shall be set to zero.

Part L: Scheme Governance

4C.34 The licensee shall submit to the Authority, at the same time as the SO Methodologies, the SO Models and the Ex-Ante Data in accordance with paragraph 4C.27 a template for the information and data submitted to the Authority in accordance with paragraph 4C.36, the form of such template to be approved by the Authority.

4C.35 The licensee shall, at the end of the month after the month the SO Methodologies, SO Models and Ex-Ante data have been approved by the Authority, and each subsequent month, submit to the Authority:

- (a) the costs associated with balancing services;
- (b) information on the key drivers of the costs referred to in 4C.35(a);
- (c) a summary of relevant events on the National Electricity Transmission System resulting in the costs referred to in 4C.35(a); and
- (d) the ex-post data required to operate the SO Models.

- 4C.36 The Authority may direct, following consultation with the licensee, that the form of the template approved by the Authority in accordance with paragraph 4C.34 and the information and data provided in accordance with paragraph 4C.35 be changed.
- 4C.37 The licensee shall by 1 July 2018 submit to the Authority a report prepared by an independent third party setting out whether, in the view of that independent third party:
- (a) the calculations of the Incentive Target Cost are in accordance with the SO Methodologies and SO Models;
 - (b) the costs of balancing services on which the licensee is incentivised as defined in paragraph 4C.12 have been correctly calculated; and
 - (c) the incentive payment for Relevant Year t has been calculated in accordance with paragraph 4C.11.
- 4C.38 If the licensee considers that there is a Model Inaccuracy in the SO Models it shall notify the Authority within 28 days of it becoming aware of such an inaccuracy of:
- (a) the date it became aware of the Model Inaccuracy;
 - (b) the materiality of the Model Inaccuracy in £m; and
 - (c) the timetable for correcting the Model Inaccuracy, such timetable to be approved by the Authority.
- 4C.39 The Authority may direct that the approved timetable for correcting the Model Inaccuracy in accordance with paragraph 4C.38(c) be changed.
- 4C.40 The Authority may direct the licensee to investigate the existence of a Model Inaccuracy in the SO Models and provide a report on the findings of that investigation.
- 4C.41 If the Authority is not satisfied with the quality of the information or data in the SO Models or any report under this condition it may direct the licensee to instruct an independent third party to review that information or data and send a report on its findings to the Authority.
- 4C.42 The Authority may, after receiving a report in accordance with 4C.38 or 4C.41, direct any changes to the SO Models and the Ex-Ante Data so as to correct the Model Inaccuracy.

Part M: Definitions

| | | |
|------------------|--|------------------------------------------------------------------------------------------------|
| Model Inaccuracy | | means any input (of information or data of the licensee or that of a third party), assumption, |
|------------------|--|------------------------------------------------------------------------------------------------|

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| | | |
|--------------|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | calculation or modelling structure that prevents the SO Models from producing a target that reflects the cost baseline expected from the economic and efficient incentivised balancing services costs to be incurred by the licensee. |
| Ex-Ante Data | | means the set of modelling inputs for the SO Model defined under the SO Methodologies in accordance with paragraph 4C.26(a) which are to be fixed for the duration of Relevant Year t (except under a Model Inaccuracy modification). |

Special Condition 4D: Restriction on contracting with BSC parties

- 4D.1 The licensee shall not enter into any contract with a BSC Party for the provision of balancing services for the management of Transmission Constraints under which that BSC Party shall agree with the licensee any condition to be applied to the prices at which it will submit offers or bids in the Balancing Mechanism in respect of any BM Unit.
- 4D.2 This prohibition shall continue in force until 31 March 2018 unless the Authority gives notice to the licensee that it shall end on an earlier date.

Special Condition 4E: Requirement to Conduct a Review and Continue to Develop Enduring Models for Forecasting the Costs of Procuring and Using Balancing Services

- 4E.1 The purpose of this condition is to require the licensee to review the SO Models and develop enduring models which are able to meet a number of Objectives (as defined in paragraph 4E.3 of this condition) in respect of forecasting the costs expected to be incurred by the licensee in procuring and using balancing services (being the external costs of the Balancing Services Activity).
- 4E.2 The licensee shall review the ability of the SO Models to achieve the Objectives set out in paragraph 4E.3 of this Special Condition and shall develop enduring models accordingly which seek to achieve the Objectives to be implemented on 1 April 2018.
- 4E.3 For the purposes of this condition, the “Objectives” to which the licensee must have regard when developing the enduring models include, but are not limited to:
- (a) developing forecasts of the target costs of the Balancing Services Activity with a forward projection of eight years;
 - (b) ensuring the enduring models are suitable for forecasting the external costs of the Balancing Services Activity undertaken by the licensee and having regard to any changes in the role of the licensee in the conduct of the Balancing Services Activity;
 - (c) developing enduring models which seek to attain optimum performance with regards to the carrying on of the Balancing Services Activity; and
 - (d) enabling industry participants to have a greater understanding of the projected level of the future costs of the Balancing Services Activity.
- 4E.4 The licensee shall update and engage with interested parties for the purposes of developing the enduring models at relevant industry fora, including but not limited to its Operational Forum Meetings. Where the Authority or the licensee considers it appropriate, the licensee shall conduct a consultation with interested parties (for not less than 28 days) in respect of the review.
- 4E.5 The Authority may, from time to time, request the licensee to provide information regarding the progress of the review.

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4E.6 The licensee shall comply with all the requirements of this condition in a timely fashion and in good faith.

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Special Condition 4F: Requirement to Develop Enduring Methodologies for the Purposes of Identifying a Target for the Costs of Procuring and Using Balancing Services

- 4F.1 The purpose of this condition is to require the licensee to develop enduring methodologies for the purpose of enduring arrangements for the setting of a revenue restriction on external costs of the Balancing Services Activity.
- 4F.2 The licensee shall conduct a review of the SO Methodologies in order to introduce enduring methodologies which meet the following objectives:
- (a) developing forecasts of the target costs of the Balancing Services Activity with a forward projection of eight years;
 - (b) ensuring the enduring methodologies are suitable for forecasting a target of the costs of the Balancing Services Activity undertaken by the licensee and having regard to any changes in the role of the licensee in the conduct of the Balancing Services Activity; and
 - (c) enabling industry participants to have a greater understanding of the projected level of future costs of the Balancing Services Activity.
- 4F.3 In developing the enduring methodologies, the licensee shall:
- (a) consult with interested parties on the enduring methodologies for not less than 28 days (the consultation period);
 - (b) submit to the Authority after the close of the consultation period any proposed revisions to the SO Methodologies (the revisions) which would be needed to introduce the enduring methodologies no later than 31 December 2017; and
 - (c) implement the revisions to take effect from 1 April 2018 unless prior to that date the licensee is directed not to implement the revisions by the Authority.

Special Condition 4G: Black Start Allowed Revenue

4G.1 The purpose of this condition is to establish arrangements to determine the allowed revenue derived from Black Start that the licensee may recover in each Relevant Year t through the term BSC_t in paragraph 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).

4G.2 The term BSC_t shall be calculated in accordance with the following formula:

$$BSC_t = BSTC_t - BSTA_t$$

where:

BSC_t means the allowed revenue derived in Relevant Year t from the Total Costs;

$BSTC_t$ means the Total Costs to the licensee incurred in Relevant Year t ;

$BSTA_t$ means the amount of any adjustments to $BSTC_t$ as may be directed by the Authority in accordance with Part F of this condition where such adjustment shall not exceed 10% of the Total Costs for Relevant Year t .

Part A: Black Start Strategy

4G.3 Further to the statement prepared pursuant to paragraph 3 of Standard Condition C16 (Procurement and use of balancing services) the licensee must, by the next working day following this condition coming into effect and thereafter at 12 monthly intervals (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “Black Start Strategy”) setting out how the licensee will approach the delivery of Black Start onto the National Electricity Transmission System. The Black Start Strategy must include, but need not be limited to:

- (a) The strategy for Black Start provision which is to be applied for the duration of the Black Start Strategy including an appropriate Restoration Approach, the Minimum Service Level required and appropriate Restoration Time;
- (b) The strategy for Black Start provision between one and three years including an appropriate Restoration Approach, the Minimum Service Level required, appropriate Restoration Time and identification of new technologies and approaches for the provision of Black Start; and
- (c) The strategy for Black Start provision beyond three years including an appropriate Restoration Approach, the Minimum Service Level required, appropriate Restoration Time and identification of new technologies and approaches for the provision of Black Start.

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Part B: Black Start Procurement Methodology

4G.4 The licensee must, by the next working day following this condition coming into effect and thereafter at 12 monthly intervals (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “Black Start Procurement Methodology”) for the purposes of determining that any procurement of Black Start during Relevant Year t is economic and efficient, including that it provides value for money for current and future electricity consumers in Great Britain. The Black Start Procurement Methodology must include, but need not be limited to:

- (d) the methodology for determining the value to current and future electricity consumers in Great Britain of Black Start provision;
- (e) the methodology for determining how each Black Start service contracted provides value to current and future electricity consumers in Great Britain and how consumer value is assessed across all Black Start services contracted cumulatively;
- (f) the process by which the licensee will seek to procure new Black Start services and assess tenders to determine that:
 - (i) the Minimum Service Level required is met in Great Britain;
 - (ii) any tenders accepted by the licensee are demonstrably economic and efficient, including by providing value for money for current and future electricity consumers in Great Britain; and
 - (iii) the Black Start procurement process is economic, efficient and competitive; and
- (g) the process by which the licensee will assess whether it is economic and efficient to incur Feasibility Studies cost to test new providers.

Part C: Authority Approval of Methodologies

4G.5 The Authority shall determine, following receipt of any of the methodologies referred to in Parts A and B above (“the Methodologies”) whether to approve or reject those Methodologies.

4G.6 If the Authority rejects any of the Methodologies in accordance with paragraph 4G.5 it may direct the licensee to resubmit a revised methodology to the Authority for approval, within the time specified in that direction.

4G.7 If the Authority approves any of the Methodologies in accordance with paragraph 4G.5, the licensee must publish the approved Methodologies (the “Approved Methodologies”

and each an “Approved Methodology”) on its website as soon as practicable following approval.

4G.8 Where the licensee considers that there are legitimate reasons for not publishing certain information or data in the Approved Methodologies on its website the Authority may approve the publication of the Approved Methodologies without such information or data.

Part D: Revision to Methodologies

4G.9 During the 12 month period to which the Approved Methodologies apply the licensee may submit to the Authority for approval notification of proposals for the revision of any of the relevant Approved Methodologies. Where the licensee submits revisions for approval the licensee must send a copy of the proposed revisions to the Authority and, unless in the licensee’s view it would not be appropriate to do so, to any person who requests a copy.

4G.10 Following receipt of a notification under paragraph 4G.9 the Authority may direct the licensee to revise the relevant Approved Methodology to reflect the proposed revision, where the Authority is satisfied that the revisions are economic and efficient and will provide value for money for electricity consumers in Great Britain. Unless the Authority, within three months of their submission under paragraph 4G.9, issues such a direction, the proposed revisions shall be deemed not to be approved.

4G.11 If the Authority directs revisions to any of the relevant Approved Methodologies in accordance with paragraph 4G.10, the licensee must revise the relevant Approved Methodology. The licensee must also publish the revised Approved Methodology on its website within 7 days of receipt of that direction.

4G.12 Where the licensee considers that there are legitimate reasons for not publishing certain information or data in the revised Approved Methodologies on its website the Authority may approve the publication of the Approved Methodologies without such information or data.

Part E: Publication of annual report

4G.13 Within one month after the end of each Relevant Year, the licensee shall prepare a report in a form approved by the Authority in respect of the Total Costs the licensee has incurred in that Relevant Year.

4G.14 The report provided to the Authority under paragraph 4G.13 must give particulars of:

- (h) the Total Costs incurred for that Relevant Year, and how the Total Costs have been calculated;
- (i) how the Total Costs have been incurred in accordance with the relevant Approved Methodologies; and

- (j) any other analysis or information which the licensee considers to be relevant to enable the Authority to fully assess the particulars to which the report relates.

4G.15 The report prepared pursuant to paragraph 4G.13 must be accompanied by a statement from an independent auditor of internationally recognised standing appointed by the licensee:

- (b) confirming that the report is accurate; and
- (c) detailing the auditor's independent assessment of the extent to which the licensee has complied with the relevant Approved Methodologies;

4G.16 The licensee must make public its annual report produced under this part. Where the licensee considers that there are legitimate reasons for not publishing certain information or data in its annual report on its website it may submit these reasons to the Authority, which may approve the publication of the report without such information or data.

Part F: Authority Determination of Adjustment

4G.17 If the Authority considers that the analysis or information provided in accordance with Part E is insufficient to enable it to assess whether it should direct an adjustment to BSTC_t, the Authority may direct that it be provided within a reasonable period with such additional information as it considers appropriate in order to enable it to make such an assessment.

4G.18 Where the licensee fails to comply with a direction given under paragraph 4G.17 in accordance with the timescale set out in such direction the Authority may extend the deadline for determination provided for in paragraph 4G.21.

4G.19 If the Authority considers that, taking account of:

- (a) the nature and extent of the information and analysis provided to it by the licensee in accordance with Part E;
- (b) the nature and extent of any further information and analysis provided to it in response to a direction under paragraph 4G.17; and
- (c) the materiality of the costs incurred,

it requires an extension of time to reach a determination, it may by way of a direction extend the deadline for determination provided for in paragraph 4G.21.

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4G.20 The Authority shall determine, following receipt of an annual report in accordance with Part E, whether the Total Costs in that Relevant Year were incurred in accordance with the relevant Approved Methodologies.

4G.21 Where the Authority determines that the Total Costs in that Relevant Year were not incurred in accordance with the relevant Approved Methodologies, it shall, within 3 months of receipt of an annual report in accordance with Part E, direct a value for the term $BSTA_t$ where such value shall not exceed 10% of the Total Costs for that Relevant Year.

4G.22 The definitions in this condition will have the following meaning:

| | |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Black Start Capability | shall have the meaning given in the Grid Code. |
| Minimum Service Level | means the minimum service level required to provide an appropriate Black Start Capability for Great Britain. |
| Restoration Approach | means the method by which the licensee would Black Start the National Electricity Transmission System. |
| Restoration Time | means the time the licensee expects it would take to energise a part or parts of the National Electricity Transmission System following a Total Shutdown or Partial Shutdown (each as defined in the Grid Code). |
| Total Costs | means the total costs associated with the provision of Black Start, including procuring, testing, warming, utilising , capital contributions and payments for Feasibility Studies costs. |

Special Condition 4H: Wind Generation Forecasting Incentive

- 4H.1 The purpose of this condition is to establish arrangements to determine the incentive payment that the licensee shall derive by means of the term $RFIIR_t$ under the term $BXext_t$ in 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) as a result of the financial incentive placed upon the licensee to improve the accuracy of its forecast in respect of the amount of Wind Generation Output and National Demand in the period from 1 April 2017 to 31 March 2018.
- 4H.2 The incentive payment (in £ million) which the licensee shall derive from the forecasting incentive term $FIIR_t$, in respect of Relevant Year t , shall be derived from the following formula:

$$FIIR_t = \sum_{m=1}^{12} MFI_m$$

where:

MFI_m means the monthly forecasting incentive revenue in respect of the relevant month m and shall be derived from the following formula:

$$MFI_m = WFI_m + WUI_m + D1FI_m + D1UI_m + D2FI_m + D2UI_m + D7FI_m + D7UI_m$$

where:

WFI_m means the monthly forecasting incentive revenue in respect of the relevant month m for the Day Ahead Wind Generation Forecast for Wind Generation Output as derived in Part A of this condition

WUI_m means the monthly forecasting incentive revenue in respect of the relevant month m for the unbiased Day Ahead Wind Generation Forecast for Wind Generation Output as derived in Part B of this condition

| | |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| D1FI _m | means the monthly forecasting incentive revenue in respect of the relevant month m for the Day Ahead National Demand Forecast as derived in Part A of this condition |
| D1UI _m | means the monthly forecasting incentive revenue in respect of the relevant month m for the unbiased Day Ahead National Demand Forecast as derived in Part B of this condition |
| D2FI _m | means the monthly forecasting incentive revenue in respect of the relevant month m for the Two-day Ahead National Demand Forecast as derived in Part A of this condition |
| D2UI _m | means the monthly forecasting incentive revenue in respect of the relevant month m for the unbiased Two-day Ahead National Demand Forecast as derived in Part B of this condition |
| D7FI _m | means the monthly forecasting incentive revenue in respect of the relevant month m for the Week-ahead National Demand Forecast as derived in Part A of this condition |
| D7UI _m | means the monthly forecasting incentive revenue in respect of the relevant month m for the unbiased Week-ahead National Demand Forecast as derived in Part B of this condition |
| m | means calendar months for the Relevant Year t (with the month April = 1) |

Part A: Forecast accuracy incentive

4H.3 The terms WFI_m, D1FI_m, D2FI_m, D7FI_m (in £ million) shall be derived from the following formulae:

$$\text{If } \sum_{d=1}^n FID_d \geq 0 :$$

$$FI_m = \min\left(\sum_{d=1}^n FID_d, FICAP_m\right)$$

$$\text{If } \sum_{d=1}^n FID_d < 0$$

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$$FI_m = \max\left(\sum_{d=1}^n FID_d, FIFLO_m\right)$$

where:

FI_m means the incentive revenue for WFI_m , $D1FI_m$, $D2FI_m$, $D7FI_m$ as defined in this condition;

$FICAP_m$ means the forecasting incentive cap for the relevant month m in respect of Relevant Year t and shall take the value £0.0625 million in the relevant months in the period 1 April 2017 to 31 March 2018;

$FIFLO_m$ means the forecasting incentive floor for the relevant month m in respect of Relevant Year t and shall take the value (minus) -£0.0313 million in the relevant months in the period 1 April 2017 to 31 March 2018; and

FID_d means the daily forecasting incentive for the Day Ahead Wind Generation Forecast, Day Ahead National Demand Forecast, Two-day Ahead National Demand Forecast and Week-ahead National Demand Forecast as derived from the appropriate formula below:

For WFI_m :

$$FID_d = \max\left[DFICAP_d \left(1 - \frac{WFIO_d}{WFIF_d}\right), DFIFLO_d\right]$$

where:

$WFIF_d$ means the forecasting incentive target factor and take for the relevant day d in respect of Relevant Year t and takes the value specified in Table 1:

Table 1:

| Period | m value | WFIF _m value |
|-----------------------------------|------------------|-------------------------|
| 1 April 2017 to 30 September 2017 | m=1,2,3,4,5,6 | 0.0325 |
| 1 October 2017 to 31 March 2018 | m=7,8,9,10,11,12 | 0.0475 |

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DFICAP_d means the daily forecasting incentive cap for the relevant day d in respect of Relevant Year t and shall take the value £0.0025 million;

DFIFLO_d means the daily forecasting incentive floor for the relevant day d in respect of Relevant Year t and shall take the value (minus) -£0.0025 million; and

WFIO_d means the average of the half-hourly Wind Generation Forecasting Error achieved by the licensee in each relevant day d in respect of each Relevant Year t and is derived from the following formula:

$$WFIO_d = \frac{1}{N} \sum_{n=1}^N WFIO_n$$

where:

N is the total number of half hours within the relevant calendar day d; and

WFIO_n is the percentage absolute error between the licensee's Day Ahead Wind Generation Forecast and Wind Generation Output within calendar day d and is derived from the following formula:

$$WFIO_n = \frac{|WFIT_n - WFIP_n|}{WFIB_n}$$

where:

WFIT_n means Day Ahead Wind Generation Forecast produced by the licensee in respect of half hour n for the relevant day d.

WFIP_n means the Wind Generation Output respect of half hour n for the relevant day d.

WFIB_n means the total Wind Generation Capacity in respect of half hour n in the relevant day d.

For D1FI_m, D2FI_m, D7FI_m:

$$FIDd = \sum_{n=1}^N FIO_n$$

where:

FIO_n is the revenue incentive on the absolute relevant forecast error for the individual forecasts achieved by the licensee in each relevant day d in respect of each Relevant Year t and is derived from the following formula:

$$FIO_n = \text{MAX} \left(\frac{DFICAPd}{Q_d} \left(1 - \frac{|FIT_n - FIP_n|}{FIIF_n} \right), \frac{DFIFLOd}{Q_d} \right)$$

where:

FIT_n means the individual forecast for $D1FI_m$, $D2FI_m$, $D7FI_m$ produced by the licensee in respect of half hour n for the relevant day d as derived from the Table1 below:

Table 1:

| | |
|---------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| National Demand Forecasting incentive | |
| $D1FI_m$ | means the individual Day Ahead National Demand Forecast produced by the licensee for the relevant half-hour n in relevant day d |
| $D2FI_m$ | means the individual Two-Day Ahead National Demand Forecast produced by the licensee for the relevant half-hour n in relevant day d |
| $D7FI_m$ | means the individual Week Ahead National Demand Forecast produced by the licensee for the relevant half-hour n in relevant day d |

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FIP_n means the National Demand in the relevant half-hour for relevant day d; and

FIIF_n means the forecasting incentive target for D1FI_m, D2FI_m, D7FI_m in respect of relevant cardinal point for the relevant day d as derived from the table below and takes the value specified in Table 2 to 4 below:

Table 2 D1FI_m:

| Cardinal point | 1 April 2017 to 30 June 2017 | 1 July 2017 to 30 September 2017 | 1 October 2017 to 31 December 2018 | 1 January 2018 to 31 March 2018 |
|----------------|------------------------------|----------------------------------|------------------------------------|---------------------------------|
| m value | m= 1,2,3 | m= 4,5,6 | m= 7,8,9 | m= 10,11,12 |
| L03 | b | b | 551 | 473 |
| 1A | 416 | 358 | 484 | 421 |
| 1B | 415 | 349 | 430 | 437 |
| 1F | 335 | 338 | 489 | 420 |
| 1S | 355 | 324 | 362 | b |
| 2A | 518 | 528 | 584 | 606 |
| 2B | 630 | 615 | 634 | 728 |
| 2F | 497 | 539 | 549 | 680 |
| 3B | 742 | 661 | 692 | 759 |
| 3C | 682 | 608 | 690 | b |
| 4A | 640 | 606 | b | b |
| 4B | 457 | 516 | 462 | 402 |
| 4C | 344 | 351 | 402 | 396 |
| DP | b | b | 603 | 519 |
| L04 | b | b | b | b |

Table 3 D2FI_m:

| Cardinal point | 1 April 2017 to 30 June 2017 | 1 July 2017 to 30 September 2017 | 1 October 2017 to 31 December 2018 | 1 January 2018 to 31 March 2018 |
|----------------|------------------------------|----------------------------------|------------------------------------|---------------------------------|
| m value | m= 1,2,3 | m= 4,5,6 | m= 7,8,9 | m= 10,11,12 |
| L03 | b | b | 550 | 475 |
| 1A | 453 | 363 | 532 | 455 |
| 1B | 464 | 391 | 487 | 484 |
| 1F | 342 | 350 | 523 | 463 |
| 1S | 405 | 342 | 379 | b |

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| | | | | |
|-----|-----|-----|-----|------|
| 2A | 634 | 606 | 653 | 732 |
| 2B | 764 | 726 | 777 | 926 |
| 2F | 558 | 613 | 582 | 756 |
| 3B | 939 | 748 | 853 | 1000 |
| 3C | 927 | 688 | 849 | b |
| 4A | 747 | 711 | b | b |
| 4B | 493 | 534 | 524 | 453 |
| 4C | 342 | 359 | 437 | 413 |
| DP | b | b | 762 | 723 |
| L04 | b | b | b | b |

Table 4 D7FI_m:

| Cardinal point | 1 April 2017 to 30 June 2017 | 1 July 2017 to 30 September 2017 | 1 October 2017 to 31 December 2018 | 1 January 2018 to 31 March 2018 |
|----------------|------------------------------|----------------------------------|------------------------------------|---------------------------------|
| m value | m= 1,2,3 | m= 4,5,6 | m= 7,8,9 | m= 10,11,12 |
| L03 | b | b | 622 | 566 |
| 1A | 589 | 496 | 848 | 783 |
| 1B | 555 | 498 | 862 | 822 |
| 1F | 485 | 486 | 823 | 795 |
| 1S | 465 | 379 | 375 | b |
| 2A | 1154 | 1030 | 983 | 1099 |
| 2B | 1269 | 1139 | 1171 | 1286 |
| 2F | 969 | 1088 | 979 | 1140 |
| 3B | 1307 | 1108 | 1229 | 1394 |
| 3C | 1163 | 881 | 1009 | b |
| 4A | 833 | 767 | b | b |
| 4B | 713 | 644 | 962 | 911 |
| 4C | 566 | 516 | 770 | 764 |
| DP | b | b | 1262 | 1073 |
| L04 | b | b | b | b |

Q_d is the total number of forecasts within the relevant calendar day d (except those forecasts where the target is b on the three tables above).

b takes the value of National Demand Forecasting Error for the relevant forecast n within the relevant calendar day d.

For Tables 2 to 4, the cardinal points are:

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| Cardinal Point | Description |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1F | means the settlement period between 00:00 and 00:30 |
| 1A | means a settlement period with the lowest National Demand between: <ul style="list-style-type: none"> •01:30 and 2:30 for the period 1 April 2017 to 11 June 2017, 4 September 2017 to 29 October 2017, and 26 March 2018 to 31 March 2018; •01:30 and 02:00 for the period 12 June 2017 to 3 September 2017; or •00:30 and 2:30 for the period 30 October 2017 to 25 March 2018. |
| L03 | means the settlement period between 02:30 and 03:00 for the period 30 October 2017 to 25 March 2018. |
| 1B | means a settlement period between 04:00 and 07:30 with the lowest National Demand. |
| 2A | means a settlement period between 09:00 and 10:30 with the highest National Demand. |
| 2B | means a settlement period between 10:30 and 13:00 with the highest National Demand.. |
| 3B | means a settlement period between 13:00 and 16:30 with the lowest National Demand |
| DP | means a settlement period between 16:30 and 19:00 with the highest National Demand for the period 30 October 2017 to 25 March 2018. |
| 4B | <ul style="list-style-type: none"> •means a settlement period with the highest National Demand between: <ul style="list-style-type: none"> ○ 19:30 and 21:00 for the period 1 April 2017 to 2 April 2017; ○ 20:00 and 21:30 for the period 3 April 2017 to 16 April 2017; ○ 20:30 and 22:00 for the period 16 April 2017 to 7 May 2017; |

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| | |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <ul style="list-style-type: none"> ○ 21:00 and 22:30 for the period 8 May 2017 to 13 August 2017; ○ 22:30 and 22:00 for the period 14 August 2017 to 27 August 2017; ○ 20:00 and 21:30 for the period 28 August 2017 to 10 September 2017; ○ 19:30 and 21:00 for the period 11 September 2017 to 24 September 2017; ○ 19:00 and 20:30 for the period 25 September 2017 to 8 October 2017; ○ 18:30 and 20:00 for the period 9 October 2017 to 15 October 2017; ○ 18:00 and 20:00 for the period 16 October 2017 to 22 October 2017; ○ 18:00 and 19:30 for the period 26 March 2018 to 31 March 2018; and <p>● means the settlement period between 20:30 and 21:00 for the period 30 October 2017 to 25 March 2017.</p> |
| 4C | means the settlement period between 23:30 and 24:00 |
| L04 | means the settlement period between 03:30 and 04:00 |
| 2F | means a settlement period between 07:30 and 09:00 with the highest National Demand |
| 3C | <p>means a settlement period with the highest National Demand between:</p> <ul style="list-style-type: none"> ● 16:30 and 18:00 for the period 1 April 2017 to 16 April 2017, 9 October 2017 to 29 October 2017, and 26 March 2018 to 31 March 2018; ● 16:30 and 18:30 for the period 17 April 2017 to 7 May 2017 and 11 September 2017 to 8 October 2017; ● 16:30 and 19:30 for the period 8 May 2017 to 27 August 2017; |

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| | |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <ul style="list-style-type: none"> • 16:30 and 19:00 for the period 28 August 2017 to 10 September 2017. |
| 4A | <p>means a settlement period with the lowest National Demand between:</p> <ul style="list-style-type: none"> • 18:00 and 19:30 for the period 1 April 2017 to 2 April 2017; • 18:00 and 20:00 for the period 3 April 2017 to 16 April 2017; • 18:30 and 20:30 for the period 17 April 2017 to 7 May 2017; • 19:30 and 21:00 for the period 8 May 2017 to 13 August 2017; • 19:30 and 20:30 for the period 14 August 2017 to 27 August 2017; • 19:00 and 20:00 for the period 28 August 2017 to 10 September 2017; • 18:30 and 19:30 for the period 11 September 2017 to 24 September 2017; • 18:00 and 19:30 for the period 26 March 2018 to 31 March 2018. |
| 1S | <p>means the settlement period between 00:30 and 01:00 for the periods 1 April 2017 to 11 June 2017, 4 September 2017 to 29 October 2017, and 26 March 2018 to 31 March 2018.</p> |

The Authority may direct changes to the definitions of the cardinal points above following consultation with the licensee.

4H.4 For the purposes of the calculation of WFI_m , the terms WFI_{T_n} , $WFIP_n$ and $WFIB_n$ above, each is the total (in MW) of all Wind Generators with installed Operational Metering for the half-hour n .

Part B: Unbiased Forecasting incentive

4H.5 The term WUI_m , $D1UI_m$, $D2UI_m$, $D7UI_m$ (in £ million) shall be derived from the following formula:

If for any two individual forecasts n , $UIT_n \geq 70\%$ or $UIT_n \leq 30\%$:

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$$UI_m = FIUFLO_m$$

If $UIT_m \geq 50\%$:

$$UI_m = MAX(-0.208UIT_m + 0.125, FIUFLO_m)$$

If $UIT_m < 50\%$:

$$UI_m = MAX(-0.208(1 - UIT_m) + 0.125, FIUFLO_m)$$

where:

UI_m means the incentive revenue for WUI_m , $D1UI_m$, $D2UI_m$, $D7UI_m$ for calendar month m as defined in this condition;

UIT_m is the total number of forecasts above or equal outturn ($FIT_n - FIP_n \geq 0$ or $WFIT_n - WFIP_n \geq 0$) as a share of total number of forecasts within the relevant calendar month m ; and

$FIUFLO_m$ means the unbiased forecasting incentive floor for the relevant month m in respect of Relevant Year t and shall take the value (minus) -£0.0208.

Part C: Incentive reporting

4H.6 No later than 15 working days after the end of each month m in Relevant Year t , the licensee shall notify the Authority of all the terms used to calculate incentive performance in respect of that month.

Part D: Quarterly forecasting report

4H.7 The licensee shall, unless otherwise directed by the Authority, prepare a report every three months (the “quarterly forecasting report”) on System Demand, wind and solar generation forecasts.

4H.8 The licensee shall publish on its website and provide a copy of the quarterly forecasting report to the Authority by 30 June 2017, 30 September 2017, 31 December 2017 and 31 March 2018.

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4H.9 Where the licensee considers that there are legitimate reasons for not publishing certain information or data in the quarterly forecasting report on its website the licensee must inform the Authority of those reasons before publication.

4H.10 The quarterly forecasting report shall include, but not be limited to the following:

- (a) a description of System Demand, wind and solar generation forecasts on the system broken down into its components parts for the periods: within day, day ahead, 2 - 14 days ahead, 7 days ahead and 2 – 52 weeks ahead.
- (b) a description of actions taken by the licensee that have affected System Demand, wind, and solar generation Forecast Errors.
- (c) an analysis on the causes of Forecast Errors and actions taken by the licensee to minimise those errors in future forecasts.

Part E: Definitions

4H.11 The definitions in this condition will have the following meaning:

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|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Active Power | shall have the same meaning as is given to that term in the Grid Code. |
| Day Ahead National Demand Forecast | means the forecast of National Demand in MW published by the licensee no later than 9:00 hours on the day before the day to which the forecast relates. |
| Day Ahead Wind Generation Forecast | means the forecast of Wind Generation Output published by the licensee no later than 5:00 hours on the day before the day to which the forecast relates (excluding that relating to Wind Generators accepted as bids and offers in the Balancing Mechanism). |
| Forecast Errors | means the difference between the relevant forecast and its outturn in respect of the relevant period. |
| National Demand | means the National Demand in MW as defined in the Grid Code. |
| National Demand Forecasting Error | means the difference between the licensee’s Day Ahead National Demand Forecast, Two-day Ahead National Demand Forecast, Week Ahead National Demand Forecast (as the case may be) and National Demand in MW in respect of each relevant half-hour. |
| Operational Metering | means metering systems used for the measurement of Active Power to the relevant distribution system or transmission system. |

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| | |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| System Demand | means measures of demand for electricity in Great Britain used by electricity market participants to inform their operational and investment decisions. |
| Two-day Ahead National Demand Forecast | means the forecast of National Demand in MW published by the licensee no later than 17:00 hours two days before the day to which the forecast relates. |
| Week Ahead National Demand Forecast | means the forecast of National Demand in MW published by the licensee no later than 17:00 hours seven days before the day to which the forecast relates. |
| Wind Generation Capacity | means the Registered Capacity of each Wind Generator in respect of which Operational Metering is installed (excluding that relating to Wind Generators accepted as bids and offers in the Balancing Mechanism). |
| Wind Generation Forecasting Error | means the difference between the licensee's Day Ahead Forecast and Wind Generation Output in respect of each half-hour. |
| Wind Generation Output | means the Active Power output in MW from each Wind Generator in respect of which Operational Metering is installed (excluding that relating to Wind Generators accepted as bids and offers in the Balancing Mechanism). |
| Wind Generator | means a Power Station comprising wind turbines. |

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Special Condition 4I: Requirement to Report on System Transmission Losses

- 4I.1 The purpose of this condition is to require the licensee to publish certain information regarding Transmission Losses on the National Electricity Transmission System. The licensee shall publish the information specified in this condition on its website.
- 4I.2 The licensee shall publish and maintain an up to date explanation of how Transmission Losses are taken into account when carrying out the Balancing Services Activity.
- 4I.3 The licensee shall publish as soon as is reasonably practicable, monthly data showing the total volume of historic Transmission Losses and an indication of the cost of Transmission Losses from the National Electricity Transmission System.
- 4I.4 The licensee shall publish information, or provide details of the location of information, which:
- (a) identifies and explains the expected drivers that may impact the total volume of expected Transmission Losses on the National Electricity Transmission System over the course of the next ten years; and
 - (b) a description of how the licensee takes expected Transmission Losses over the course of the next ten years into account when undertaking its planning activities in relation to the Balancing Services Activity.

Special Condition 4J. SO-TO mechanism

Part A: Purpose of licence conditions

4J.1 The purpose of this condition is to:

- (a) establish the value of the SO-TO Cost allowance term ($SOTOC_t$) in the formula in Special Condition 4C (Balancing Services Activity Revenue Restriction); and
- (b) place an obligation on the licensee in relation to the production of a quarterly report on the Commercial Operational Services and Joint Works Projects incurred or considered by the licensee.

4J.2 For the purposes of paragraph 4J.1, the term OC_t shall be derived from the following formula:

$$SOTOC_t = (OC_t + COS_t + OCTRU_t + ONTRU_t) \times RPIF_t + JW_t + OIPay_t + IONT_t$$

where:

- OC_t means an allowance for payments by the licensee to SP Transmission Ltd, Scottish Hydro Electric Transmission Plc or any successor company to each in respect of Outage Changes and has the value £1,146,800 (in 2009/10 prices) for the Relevant Year t unless determined otherwise by the Authority in accordance with Part D of this condition;
- COS_t means an allowance for payments to SP Transmission Ltd, Scottish Hydro Electric Transmission Plc or any successor company by the licensee in respect of Commercial Operational Services and has the value £1,146,800 (in 2009/10 prices) for 2017/18 and zero for any other Relevant Year t unless determined otherwise by the Authority in accordance with Part D of this condition;
- $OCTRU_t$ means the revenue adjustment made in Relevant Year t in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4J.3 of this condition;
- $ONTRU_t$ means the revenue adjustment made in Relevant Year t in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4J.4 of this condition and has

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the value zero in Relevant Years 2018/19 and in each subsequent Relevant Year.

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

JW_t means an allowance for payments to SP Transmission Ltd, Scottish Hydro Electric Transmission Plc or any successor company to each by the licensee in respect of a Joint Works Projects and has the value of zero unless determined otherwise by the Authority in accordance with Part D of this condition;

$OIPay_t$ means an incentive payment for Relevant Year t determined in accordance with Part F of this condition; and

$IONT_t$ means the amount of any allowed outage cost adjustments in each Relevant Year t determined in accordance with Part D of this condition;

4J.3 For the purposes of paragraph 4J.2, $OCTRU_t$ is derived in accordance with the following formula:

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

where:

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

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

$SOTOC_{t-2}$ means the SO-TO Cost allowance as derived in accordance with paragraph 4J.2 of this condition; and

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

4J.4 For the purposes of paragraph 4J.2, $ONTRU_t$ is derived in accordance with the following formula:

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

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where:

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

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

NC_{t-2} means the Outage Change cost allowance calculated in accordance with the licence in effect in Relevant Year 2016/17; and

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

Part B: Outage cost adjusting event

4J.5 This part sets out the procedure for the licensee notifying the Authority of an outage cost adjusting event for Outage Changes and Commercial Operational Services.

4J.6 An outage cost adjusting event in Relevant Year t may arise from any of the following:

(a) where the actual costs incurred by the licensee in making Outage Changes are, or where the licensee's reasonable expectation of the actual costs in making Outage Changes will be either less than or in excess of OC_t in each case by more than £300,000 (the "outage threshold amount") or such other figure as the Authority has specified for the Relevant Year, where OC_t has the value ascribed to it in paragraph 4J.2 above;

(b) where the actual costs incurred by the licensee in making Commercial Operational Services, or where the licensee's reasonable expectation of the actual costs in making Commercial Operational Services will be less than the value of COS_t or such other figure as the Authority has determined for the Relevant Year where COS_t has the value ascribed to it in paragraph 4J.2 above;

(c) an event or circumstance other than that in paragraph 4J.6(a) or 4J.6(b) above which is, in the opinion of the Authority, an outage cost adjusting event and is approved by it as such in accordance with Part D.

4J.7 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 outage cost adjusting event, then the licensee shall give notice of this event to the Authority.

4J.8 A notice provided to the Authority under paragraph 4J.7 shall give particulars of:

(a) the event to which the notice relates and the reason(s) why the licensee considers this event to be an outage cost 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 and how the amount of these costs and/or expenses has been calculated;
- (c) the amount of any allowed outage cost adjustment proposed as a consequence of that event and how this allowed outage cost adjustment has been calculated; and
- (d) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to Part D of this condition to fully assess the event to which the notice relates.

4J.9 If the Authority considers that the analysis or information provided in sub-paragraphs 4J.8(a) to 4J.8(d) above is insufficient to enable both the Authority and the relevant parties referred to in Part D of this condition to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed outage cost adjustment that should be approved, the Authority can direct that the supporting evidence be supplemented with additional information that it considers appropriate.

4J.10 A notice under paragraph 4J.7 shall be given as soon as is reasonably practicable after the occurrence of the outage cost adjusting event, and, in any event, not later than three months after the end of the Relevant Year in which it occurs.

4J.11 The Authority will make public, excluding any confidential information, any notice of an outage cost adjusting event and any supporting information following its receipt.

4J.12 Any notice submitted to the Authority under paragraph 4J.7 above must clearly identify whether any of the information contained in the approval notice and any supporting information is of a confidential nature.

Part C: Joint Works Projects

4J.13 Where the licensee considers, and can provide supporting evidence that, in respect of a Joint Works Project, where the cost exceeds the COST value and the benefits of the Joint Works Project outweigh the associated costs, then the licensee shall give notice of this Joint Works Project to the Authority.

4J.14 To qualify as a Joint Works Project, a project must meet the following principles:

- (a) provide benefits to existing and future electricity consumers in Great Britain; and
- (b) not be funded or not be capable of being funded elsewhere,

and must be supported by an independent review by an appropriate third-party independent expert on the licensee's analysis and conclusions on 4J.14(a) and 4J.14(b).

4J.15 A notice provided to the Authority under paragraph 4J.13 must give particulars of:

- (a) the project to which the approval notice relates and the reason(s) why the licensee considers the project is a Joint Works Project;
- (b) the anticipated level of cost savings that can be demonstrated by the licensee as likely to result from the project and how the level of these cost savings has been calculated;
- (c) how the project satisfies the principles set out in paragraph 4J.14; and
- (d) any other analysis or information which the licensee considers to be relevant to enable the Authority and the relevant parties referred to in paragraph 4J.20 to fully assess the projects savings to which the notice relates.

4J.16 If the Authority considers that the analysis or information provided in sub-paragraphs 4J.15(a) to 4J.15(d) above is insufficient to enable the Authority to assess whether a project is a Joint Works Project, the Authority can either request that supporting evidence be supplemented with additional information that it considers appropriate or return the project to the licensee for resubmission.

4J.17 If the Authority considers that assessing the application at that time places a too high an administrative burden on the Authority, the Authority may decide not to assess the Joint Works Project or defer such assessment to such time as it considers to be appropriate.

4J.18 The Authority will publish, excluding any confidential information duly identified, any notice of a Joint Works Project as soon as reasonably practicable following its receipt.

4J.19 Any notice submitted to the Authority under paragraph 4J.13 above must clearly identify whether any of the information contained in the approval notice is of a confidential nature.

Part D: Approval from Authority

4J.20 The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):

- (a) whether to approve or reject any notice including the value submitted by the licensee under Part B; and
- (b) whether to approve or reject the Joint Works Project submitted under Part C and the level of costs that the licensee can recover in Relevant Year t.

4J.21 In the event that the licensee does not incur those costs outlined in the Joint Works Project submission, it should notify the Authority.

4J.22 In relation to the Relevant Year t, the allowed outage cost adjustment (IONTt) for the purposes of paragraph 4J.2 shall be:

- (a) the value determined by the Authority under paragraph 4J.20(a) above; or

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- (b) if the Authority has not made a determination under paragraph 4J.20(a) above within three months of the date on which notice of an outage cost adjusting event was provided to the Authority, the amount of the allowed outage cost adjustment proposed as a consequence of the event in the notice given to the Authority under Part B of this condition; or
- (c) in all other cases zero, including situations where the Authority has not made a determination under paragraph 4J.20 above within three months of the date on which notice of an outage cost adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 4J.8 and/or 4J.9 is insufficient to enable the Authority to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed outage cost adjustment.

4J.23 The Authority may revoke an approval of an outage cost adjusting event and allowed outage cost adjustment by direction, following consultation with the licensee and relevant parties.

4J.24 In relation to the Relevant Year t, the Joint Works Project allowance (JWt) for the purposes of paragraph 4J.2 shall be:

- (a) the value determined by the Authority under paragraph 4J.20 (b) above minus any unspent costs notified to the Authority under paragraph 4J.21; or
- (b) in all other cases zero.

Part E: Quarterly reporting

4J.25 The licensee shall, unless otherwise directed by the Authority, publish an SO-TO report (“SO-TO report”) on all of the Commercial Operational Services and Joint Works Projects on its website and provide a copy of the report to the Authority by 1 July 2017, and at the end of every subsequent three month period or such other dates as directed by the Authority.

4J.26 Where the licensee considers that there are legitimate reasons for not publishing certain information or data in the SO-TO report on its website the Authority may approve the publication of the report without such information or data.

4J.27 The SO-TO report shall include at least:

- (a) the details on every project evaluated (above a de minimis threshold of £25,000), either as Commercial Operational Services or as a Joint Works Project including the costs and associated savings of those projects

- (b) the details of every Commercial Operational Services and Joint Works Project enacted under the mechanism set out in this condition, including the costs and associated savings of those projects; and
- (c) the methodology used by the licensee to derive its estimate of costs and associated savings.

Part F: Incentive mechanism

- 4J.28 The Authority will determine the value of OIPayt in the manner set out in this Part F.
- 4J.29 The licensee shall submit to the Authority by 1 July 2018, unless otherwise directed by the Authority, an annual Commercial Operational Services and Joint Works Project report containing the information set out in paragraph 4J.27 and any other information that the licensee considers will be relevant to enable the Authority to make a determination under paragraph 4J.34.
- 4J.30 The report prepared pursuant to paragraph 4J.29 must be accompanied by a statement from an appropriate third-party independent expert:
- (a) confirming that they have carried out an investigation on the projects specified in the report prepared pursuant to paragraph 4J.29 and costs incurred under the mechanism set out in this condition; and
 - (b) provide an opinion as to:
 - (i) the appropriateness of the original outage plan;
 - (ii) the level of costs incurred under the mechanism set out in this condition; and
 - (ii) whether costs incurred under the mechanism set out in this condition are compliant with the requirements of this licence condition.
- 4J.31 Before submitting the report to the Authority, the licensee must consult with industry on a draft report for at least 28 days.
- 4J.32 The consultation must:
- (a) set out the methodology used by the licensee to calculate any savings or losses; and
 - (b) explain the actions the licensee considered and enacted.
- 4J.33 The licensee shall:
- (a) take account of all the responses to the consultation and if appropriate amend the report before submitting it to the Authority; and
 - (b) include in the report all the responses to the consultation.
- 4J.34 The Authority shall consider the information provided to it under this Part and will then determine the level of savings or losses incurred as a consequence of the projects identified in the annual report submitted under this Part and assign the value of OIPayt

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for the purposes of paragraph 4J.2 as 10% of the deemed saving or loss subject to a cap and floor or ±£1million.

Part H Definitions

4J.35 The definitions in this condition will have the following meaning:

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| Commercial Operational Services | means a service provided to the licensee by SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company to each with the purpose of lowering the overall costs associated with the procurement and use of balancing services by the licensee above these parties obligations under the licence or the STC. |
| Joint Works Projects | means where the licensee and SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company agree to a Commercial Operational Services so as to minimise costs on the national electricity transmission system when the costs are higher than £1,146,800 (in 2009/10 prices); |
| Outage Change | <p>means a change notified to a SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company by the licensee to the Outage Plan on or after Week 49, as updated from time to time in accordance with the STC, other than:</p> <ul style="list-style-type: none"> (a) a change to the Outage Plan requested by SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company (the “original change”); and (b) such changes notified to the SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company by the licensee which: <ul style="list-style-type: none"> (i) the licensee and SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company agree are necessary in order to give effect to the original change; or (ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change, and |

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| | (c) without prejudice to sub-paragraphs (a) and (b) above, any change to the Outage Plan notified to SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company by the licensee which the licensee and the Transmission Owner agree is not an Outage Change under this licence condition (a “non-chargeable outage change”) |
| Outage Plan | has the meaning used or given in the STC; |
| Week 49 | has the meaning used or given in the STC; |

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Special Condition 4K: Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs

- 4K.1. The objective of this condition is to establish arrangements to determine the allowed revenue derived from procuring and using Demand Side Balancing Reserve (“DSBR”) and Supplemental Balancing Reserve (“SBR”) for the purposes of the Balancing Services Activity (being the external costs of those balancing services for the purposes of the Balancing Services Activity), that the licensee may recover in each Relevant Year t through the term LBS_t in paragraph 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).
- 4K.2. The term LBS_t shall take the value zero, except for Relevant Years 2014/15 and 2015/16 and any other such Relevant Years as directed by the Authority in accordance with paragraph 4K.3, in respect of which it shall be calculated in accordance with the following formula:

$$LBS_t = DSBR_t + SBR_t + TOC_t$$

where:

$$DSBR_t = DSBRSt + DSBRSA_t + DSBRAd_t + DSBRAdA_t + DSBRt_t + DSBRtA_t + DSBRU_t$$

$$SBR_t = SBRC_t + SBRCA_t + SBRT_t + SBRTA_t + SBRA_t + SBRU_t$$

$$TOC_t = \min(SBRTO_t + SBRTOA_t + DSBRTO_t + DSBRTOA_t, TOCap_t)$$

LBS_t means the allowed revenue derived in Relevant Year t from and associated with procuring and using DSBR and SBR;

$DSBR_t$ means the costs to the licensee of DSBR Set Up Payments, DSBR Administration Payments, DSBR Testing Payments and DSBR Utilisation

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Payments in the Relevant Year t determined in accordance with this condition;

SBR_t means the costs to the licensee of SBR Capability Payments, SBR Availability Payments, SBR Testing Payments and SBR Utilisation Payments during the Relevant Year t determined in accordance with this condition;

$DSBRS_t$ means the costs to the licensee in respect of DSBRS Set Up Payments in the Relevant Year t incurred in accordance with this condition;

$DSBRSA_t$ means the amount of any adjustments to $DSBRS_t$, directed by the Authority in accordance with paragraph 4K.32;

$DSBRAd_t$ means the costs to the licensee in respect of DSBRS Administration Payments incurred in the Relevant Year t in accordance with this condition;

$DSBRAdA_t$ means the amount of any adjustments to $DSBRAd_t$, directed by the Authority in accordance with paragraph 4K.32;

$DSBRT_t$ means the costs to the licensee in respect of DSBRS Testing Payments in the Relevant Year t incurred in accordance with this condition;

$DSBRTA_t$ means the amount of any adjustments to $DSBRT_t$, directed by the Authority in accordance with paragraph 4K. 32;

$DSBRU_t$ means the costs the Authority directs under paragraph 4K.25 that the licensee may recover in respect of DSBRS Utilisation Payments in Relevant Year t, following a determination of the Authority in accordance with paragraph 4K.24 of this condition. If no such determination has been made in respect of Relevant Year t, it shall take the value zero;

$DSBRTO_t$ means the costs to the licensee in respect of DSBRS Tender Option Contract Payments in the Relevant Year t incurred in accordance with this condition;

$DSBRTOA_t$ means the amount of any adjustments to $DSBRTO_t$ directed by the Authority in accordance with paragraph 4K.34.

- SBRC_t** means the costs to the licensee in respect of SBR Capability Payments in the Relevant Year t incurred in accordance with this condition;
- SBRCA_t** means the amount of any adjustments to SBRC_t, directed by the Authority in accordance with paragraph 4K.32;
- SBRT_t** means the costs to the licensee in respect of SBR Testing Payments in the Relevant Year t incurred in accordance with this condition;
- SBRTA_t** means the amount of any adjustments to SBRT_t directed by the Authority in accordance with paragraph 4K.32;
- SBRA_t** means the costs the Authority directs under paragraph 4K.25 that the licensee may recover in respect of SBR Availability Payments in Relevant Year t following a determination by the Authority in accordance with paragraph 4K.24. If no such determination has been made in respect of Relevant Year t, it shall take the value zero; and
- SBRU_t** means the costs the Authority directs under paragraph 4K.25 that the licensee may recover in respect of SBR Utilisation Payments in Relevant Year t following a determination by the Authority in accordance with paragraph 4K.24. If no such determination has been made in respect of Relevant Year t, it shall take the value of zero.
- SBRTO_t** means the costs to the licensee in respect of SBR Tender Option Contract Payments in the Relevant Year t incurred in accordance with this condition;
- SBRTOA_t** means the amount of any adjustments to SBRTO_t directed by the Authority in accordance with paragraph 4K.34.
- TOCap_t** means £5 million or such other amount as may be directed by the Authority.

4K.3. The Authority may direct any changes to the Relevant Years to which the provisions of this condition apply, which shall be deemed to be reflected in paragraphs 4K.2 and 4K.4 – 8 by virtue of that direction.

Part A: Volume Requirement Methodology

4K.4. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “Volume Requirement Methodology”) which is to be applied in the Relevant Years 2014/15 and 2015/16, (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3), for determining the aggregate required volume of DSBR and SBR that the licensee will seek to procure (the “Volume Requirement”). The Volume Requirement Methodology must include, but need not be limited to:

- (a) the methodology for determining the Volume Cap for Relevant Year t ; and
- (b) the methodology for determining the minimum aggregate volume of DSBR and SBR that would be necessary to meet the Reliability Standard in Relevant Year t , subject to the Volume Cap.

Part B: DSBR Procurement Methodology

4K.5. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “DSBR Procurement Methodology”) which is to be applied in the Relevant Years 2014/15 and 2015/16 (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3) for the purposes of determining that any procurement of DSBR is economic and efficient, including that it provides value for money for electricity consumers in Great Britain. The DSBR Procurement Methodology must include, but need not be limited to:

- (a) the methodology for determining the DSBR Cost Threshold;
- (b) the process by which tenders submitted to the licensee for the provision of DSBR (“DSBR Tenders”), will be assessed by the licensee to determine that:
 - (i) the Volume Requirement will be met in respect of each Relevant Year t (subject to the Volume Cap and DSBR Cost Threshold) at least cost; and
 - (ii) any DSBR Tenders that are accepted by the licensee are demonstrably economic and efficient, including by providing value for money for electricity consumers in Great Britain;

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- (c) the processes set out at (b) must take account of:
 - (i) DSBR Set Up Payments;
 - (ii) DSBR Testing Payments;
 - (iii) DSBR Administration Payments; and
 - (iv) DSBR Utilisation Payments;

- (d) the process by which the licensee will determine the optimal balance between the procurement of SBR and DSBR for the purpose of delivering value for money for electricity consumers in Great Britain; and

- (e) the steps the licensee will take with the aim of ensuring that the DSBR procurement process is economic, efficient and competitive.

Part C: DSBR Operational Methodology

4K.6. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “DSBR Operational Methodology”), which is to be applied in the Relevant Years 2014/15 and 2015/16 (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3), for the purposes of determining that DSBR Testing and utilisation of DSBR is economic and efficient, including that it provides value for money for electricity consumers in Great Britain. The DSBR Operational Methodology must include, but need not be limited to:

- (a) the process by which the licensee will identify whether utilisation of DSBR is:
 - (i) required;
 - (ii) economic and efficient, including whether it provides value for money for electricity consumers in Great Britain; and
 - (iii) compliant with the principles and considerations relating to the use of DSBR set out in the document prepared by the licensee pursuant to

paragraph 5 of Standard Condition C16 (Procurement and use of balancing services)

- (b) the principles regarding the order in which DSBR shall be utilised by the licensee;
- (c) the process by which the licensee will identify how to utilise DSBR, including the order in which DSBR pursuant to individual contracts for the provision of DSBR will be utilised, in an efficient and economic manner, including providing value for money for electricity consumers;
- (d) the criteria for determining:
 - (i) whether DSBR Testing is required; and
 - (ii) the level of DSBR Testing that will promote the reliability of DSBR in an economic and efficient manner, including providing value for money for electricity consumers in Great Britain; and
- (e) the steps the licensee will take to minimise any distortion of the electricity market in Great Britain as a result of its utilisation of DSBR and DSBR Testing.

Part D: SBR Procurement Methodology

4K.7. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “SBR Procurement Methodology”) which is to be applied in the Relevant Years 2014/15 and 2015/16 (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3), for the purposes of determining that any procurement of SBR is economic and efficient, including that it provides value for money for electricity consumers in Great Britain. The SBR Procurement Methodology must include, but need not be limited to:

- (a) the methodology for determining the SBR Cost Threshold;

- (b) the process by which tenders submitted to the licensee for the provision of SBR (“SBR Tenders”), will be assessed by the licensee to determine that:
 - (i) the Volume Requirement is met in respect of each Relevant Year t (subject to the Volume Cap and SBR Cost Threshold) at least cost; and
 - (ii) any SBR Tenders that are accepted by the licensee are demonstrably economic and efficient, including by providing value for money for electricity consumers in Great Britain,
- (c) The process set out at (b) must take account of:
 - (i) SBR Capability Payments;
 - (ii) SBR Testing Payments;
 - (iii) SBR Availability Payments; and
 - (iv) SBR Utilisation Payments;
- (d) the process by which the licensee will determine the optimal balance between the procurement of SBR and DSBR for the purpose of providing value for money for electricity consumers in Great Britain; and
- (e) the steps the licensee will take with the aim of ensuring that the SBR procurement process is economic, efficient and competitive.

Part E: SBR Operational Methodology

4K.8. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “SBR Operational Methodology”) which is to be applied in Relevant Years 2014/15 and 2015/16 (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3), for the purposes of determining that SBR Testing, instructing SBR Availability and utilisation of SBR is economic and efficient, including that it provides value for money for electricity consumers in Great Britain. The SBR Operational Methodology must include but need not be limited to:

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- (a) the process by which the licensee will identify whether utilisation of SBR is:
 - (i) required;
 - (ii) economic and efficient, including whether it provides value for money for electricity consumers in Great Britain; and
 - (iii) compliant with the principles and considerations relating to the use of SBR set out in the document prepared by the licensee pursuant to paragraph 5 of Standard Condition C16;
- (b) the principles regarding the order in which SBR shall be used by the licensee;
- (c) the process by which the licensee will identify how to utilise SBR, including the order in which SBR pursuant to individual contracts for the provision of SBR will be utilised, in an efficient and economic way, including providing value for money for electricity consumers;
- (d) the process by which the licensee will identify whether instructing SBR Availability is:
 - (i) required;
 - (ii) economic and efficient, including whether it provides value for money for electricity consumers in Great Britain;
- (e) the criteria for determining:
 - (i) whether SBR Testing is required; and
 - (ii) the level of SBR Testing that will promote the reliability of SBR in an economic and efficient manner, including providing value for money for electricity consumers in Great Britain; and
- (f) the steps that the licensee will take to minimise any distortion of the electricity market in Great Britain as a result of SBR Testing, instructing SBR Availability or utilisation of the SBR service.

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Part F: Authority Approval of Methodologies

- 4K.9. The Authority shall determine, following receipt of any of the methodologies referred to in Parts A to E above (“the Methodologies”) whether to approve or reject those Methodologies.
- 4K.10. If the Authority rejects any of the Methodologies in accordance with paragraph 4K.9 it may direct the licensee to resubmit a revised Methodology to the Authority for approval, within the time specified in that direction.
- 4K.11. If the Authority approves any of the Methodologies in accordance with paragraph 4K.9, the licensee must publish the approved Methodologies (the “Approved Methodologies”) on its website as soon as practicable following approval, unless in the licensee’s view it would not be appropriate to do so.

Part G: Revision to Methodologies

- 4K.12. The licensee may by, no later than 31 March of Relevant Year t, submit to the Authority for approval proposals for the revision of any of the relevant Approved Methodologies, except for the Volume Cap specified in the Volume Requirement Methodology, for implementation at the commencement of the next following Relevant Year t. Where the licensee submits revisions for approval the licensee must send a copy of the proposed revisions to the Authority and, unless in the licensee’s view it would not be appropriate to do so, to any person who requests a copy.
- 4K.13. Following receipt of a notification under paragraph 4K.12 the Authority may direct the licensee to revise the relevant Approved Methodology to reflect the proposed revision, where the Authority is satisfied that the revisions are economic and efficient and will provide value for money for electricity consumers in Great Britain. Unless the Authority, within 3 months of their submission under paragraph 4K.12, issues such a direction, the proposed revisions shall be deemed not to be approved.
- 4K.14. If the Authority directs changes to any of the relevant Approved Methodologies in accordance with paragraph 4K.13, the licensee must revise the relevant Approved

Methodologies . The licensee must also publish them on its website within 7 days of receipt of that direction unless in the licensee's view it would not be appropriate to do so.

- 4K.15. If the licensee considers that an exceptional change in circumstances arises that materially affects the basis upon which the relevant Approved Methodologies were approved by the Authority in a significant way (other than in relation to the Volume Cap as set out in the Volume Requirement Methodology), the licensee must promptly notify the Authority of the change in circumstances and its materiality and significance.
- 4K.16. Following receipt of a notification under paragraph 4K.15 the Authority may direct the licensee to revise the relevant Approved Methodology to reflect the change in circumstances notified by the licensee where the Authority is satisfied that the revisions are economic and efficient and will provide value for money for electricity consumers in Great Britain. Unless the Authority, within 3 months of their a submission under paragraph 4K.14, issues such a direction, the proposed revisions shall be deemed not to be approved.
- 4K.17. If the Authority directs changes to the relevant Approved Methodologies in accordance with paragraph 4K.16, the licensee must revise the relevant Approved Methodologies. The licensee must also publish them on its website within 7 days of receipt of the relevant direction unless in the licensee's view it would not be appropriate to do so.

Part H: Authority Determinations

Part H1: Notice of SBR Availability Payments, SBR Utilisation Payments and DSBR Utilisation Payments

- 4K.18. Where the licensee considers, and can provide supporting evidence that, in respect of Relevant Year t, it has incurred DSBR Utilisation Payments, SBR Utilisation Payments or SBR Availability Payments for the first time following this condition coming into effect, it may provide notice of these payments to the Authority within the period up to and including 31 March of the Relevant Year t.
- 4K.19. Thereafter, where the licensee considers, and can provide supporting evidence that, in respect of Relevant Year t, it has incurred in aggregate DSBR Utilisation Payments, SBR Utilisation Payments and SBR Availability Payments in excess of £2.5 million, or such lower amount as the Authority may direct, it may provide notice of those payments to the Authority within the period up to and including 31 March of the Relevant Year t.

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4K.20. Notwithstanding the above, the licensee must provide a notice setting out all other DSBR Utilisation Payments, SBR Utilisation Payments and SBR Availability Payments it considers, and can provide supporting evidence that, it has incurred in respect of Relevant Year t, to the Authority by 31 March of the Relevant Year t.

4K.21. A notice provided to the Authority under paragraphs 4K.18, 4K.19 or 4K.20 must give particulars of:

- (a) the events to which the notice relates;
- (b) the amount of any payments that have been made as a result of those events, and how the amount of those payments has been calculated;
- (c) how the payments are in accordance with the relevant Approved Methodologies; and
- (d) any other analysis or information which the licensee considers to be relevant to enable the Authority to fully assess the event to which the notice relates.

4K.22. If the Authority considers that the analysis or information provided in accordance with paragraph 4K.21 is insufficient to enable it to assess whether it should direct the recovery of the relevant costs, the Authority may direct that it be provided within a reasonable period with such additional information as it considers appropriate in order to enable it to make such an assessment. Where the licensee fails to comply with such a direction in accordance with the time scale set out in such direction, the Authority may extend the deadline for determination provided for in paragraph 4K.25.

4K.23. If the Authority considers that, taking account of:

- (a) the nature and extent of the information and analysis provided to it by the licensee in accordance with paragraph 4K.21,
- (b) the nature and extent of any further information and analysis provided to it in response to a direction under paragraph 4K.22,
- (c) the materiality of the costs incurred,

it requires further time to reach a determination, it may by way of a direction extend the deadline for determination provided for in paragraph 4K.25.

Part H2: The Authority's Determination – SBR Availability Payments, SBR Utilisation Payments and DSBR Utilisation Payments

4K.24. The Authority shall determine following receipt of a notice in accordance with paragraph 4K.21 whether DSBR Utilisation Payments, SBR Availability Payments or SBR Utilisation Payments were incurred in accordance with the relevant Approved Methodologies.

4K.25. Unless the Authority, within 28 days of receipt of a notice in accordance with paragraph 4K.21, determines that the DSBR Utilisation Payments, SBR Availability Payments or SBR Utilisation Payments were incurred in accordance with the relevant Approved Methodologies, and directs that these costs may be recovered, the terms SBRAt, SBRUt, DSBRUt, shall take the value zero.

Part H3: DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, SBR Testing Payments and DSBR Testing Payments Report and DSBR Tender Option Contract Payments and SBR Tender Option Contract Payments Report

4K.26. Where the licensee considers, and can provide supporting evidence that, in respect of Relevant Year t, it has incurred in aggregate DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, SBR Testing Payments and DSBR Testing Payments in excess of £2.5 million, or such lower amount as the Authority may direct, it may provide notice of those payments to the Authority within the period up to and including 31 March of the Relevant Year t.

4K.27. Notwithstanding the above, the licensee must provide a notice setting out all other DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, SBR Testing Payments and DSBR Testing Payments it considers, and can provide supporting evidence that, it has incurred in respect of Relevant Year t, to the Authority by 31 March of the Relevant Year t.

4K.28. Notwithstanding the above, the licensee must provide a notice setting out all DSBR Tender Option Contract Payments and SBR Tender Option Contract Payments it considers, and can provide supporting evidence that, it has incurred in respect of Relevant Year t, to the Authority by the later of the next working day following this provision coming into effect and 31 March of the Relevant Year t.

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4K.29. A notice provided to the Authority under paragraphs 4K.26 or 4K.27 must give particulars of:

- (a) the amount of any DSBR Set Up Payments, DSBR Administration Payments, DSBR Testing Payments, SBR Capability Payments and SBR Testing Payments that have been made in Relevant Year t, and how the amount of those payments has been calculated;
- (b) whether those payments have been made in accordance with the relevant Approved Methodologies; and
- (c) any other analysis or information which the licensee considers relevant.

4K.30. A notice provided to the Authority under paragraph 4K.28 must set out how the SBR Tender Option Contract Payments and DSBR Tender Option Contract Payments were economic and efficient (including that they provide long term value for consumers), including particulars of :

- (a) the events to which the notice relates;
- (b) the criteria applied by the licensee to assess eligibility for SBR Tender Option Contract Payments and DSBR Tender Option Contract Payments;
- (c) the amount of SBR Tender Option Contract Payments and DSBR Tender Option Contract Payments that have been made as a result of those events and how the amount of those payments have been calculated (including how it has assessed the DSBR Tender Option Costs and SBR Tender Option Costs); and
- (d) the steps the licensee has taken to verify the relevant DSBR Tender Option Costs and SBR Tender Option Costs.

4K.31. If the Authority considers that the analysis or information provided in accordance with paragraph 4K.29 and 4K.30 is insufficient to enable it to assess whether it should direct an adjustment to the recovery of the relevant costs, the Authority may direct that it be

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provided within a reasonable period with such additional information as it considers appropriate in order to enable it to make such an assessment. Where the licensee fails to comply with such a direction in accordance with the time scale set out in such direction the Authority may extend the deadline for determination provided for in paragraph 4K.34.

4K.32. If the Authority considers that, taking account of:

- (a) the nature and extent of the information and analysis provided to it by the licensee in accordance with paragraph 4K.29 or 4K.30,
- (b) the nature and extent of any further information and analysis provided to it in response to a direction under paragraph 4K.31,
- (c) the materiality of the costs incurred,

it requires further time to reach a determination, it may by way of a direction extend the deadline for determination provided for in paragraph 4K.34.

Part H4: The Authority’s Determination – DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, SBR Testing Payments and DSBR Testing Payments, DSBR Tender Option Contract Payments, SBR Tender Option Contract Payments

4K.33. The Authority shall determine following receipt of a notice in accordance with paragraph 4K.29 or 4K.30 whether the DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, DSBR Testing Payments and SBR Testing Payments were incurred in accordance with the relevant Approved Methodologies and whether the DSBR Tender Option Contract Payments and SBR Tender Option Contract Payments were economic and efficient (including that they provide long term value for consumers).

4K.34. Where the Authority determines that the relevant payments were not made in accordance with the relevant Approved Methodologies or were not economic and efficient as applicable, it shall, within 28 days of receipt of a notice in accordance with paragraph 4K.29 or 4K.30, direct that the recovery of the relevant costs shall be adjusted accordingly.

4K.35. In this condition:

Demand Side Balancing Reserve (or means the balancing service of that name “DSBR”) as described in the document the licensee

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| DSBR Administration Payments | is required to establish in accordance with paragraph 3 of Standard Condition C16; means payments made by the licensee pursuant to a contract for the provision of DSBR, to a person in respect of the provision by such person of DSBR by causing one or more other persons to provide DSBR; |
| DSBR Cost Threshold | means the mechanism set out in the DSBR Procurement Methodology for determining the maximum cost of a contract for DSBR that could be deemed to be economic and efficient and as providing value for money for electricity consumers in Great Britain; |
| DSBR Set Up Payments | means payments made by the licensee pursuant to a contract for the provision of DSBR, to a DSBR service provider in relation to costs incurred by such DSBR service provider in preparing to be able to provide the DSBR service; |
| DSBR Tender Option Contract Payment | means payments made by the licensee in relation to DSBR Tender Option Costs that are conditional on the recipient of such payments not being awarded a DSBR contract in the relevant tender. |
| DSBR Tender Option Costs | means the material, incremental, short-term costs incurred by potential providers of DSBR which are necessary to facilitate their participation in a tender for DSBR contracts for Relevant Year t. |

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| DSBR Testing | means actions taken to verify that DSBR is capable of delivery in accordance with the terms of the relevant DSBR contract; |
| DSBR Testing Payments | means payments made by the licensee pursuant to a contract for the provision of DSBR, in respect of DSBR Testing; |
| DSBR Utilisation Payments | means payments made by the licensee pursuant to a contract for the provision of DSBR, in respect of delivery of DSBR in response to instructions received from the licensee instructing such delivery; |
| Reliability Standard | means the reliability standard as specified by the Secretary of State pursuant to powers in the Energy Act 2013, or prior to such specification coming in to force, the draft version of the same, as published by the Secretary of State in July 2013; |
| SBR Availability | means actions taken by the SBR provider to make SBR available for delivery within operational timescales, in response to instructions received from the licensee instructing the SBR provider to take those actions; |
| SBR Availability Payments | means payments made by the licensee pursuant to a contract for the provision of SBR, in respect of SBR Availability; |
| SBR Capability Payment | means payments made by the licensee pursuant to a contract for the provision of SBR, in respect of SBR being capable of delivery in accordance with the terms of the relevant SBR contract, in the event that |

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| | the licensee issues instructions for delivery; |
| SBR Cost Threshold | means the mechanism set out in the SBR Procurement Methodology for determining the maximum cost of a contract for the SBR service that could be deemed to be economic and efficient and as providing value for money for electricity consumers in Great Britain; |
| SBR Tender Option Contract Payment | means payments made by the licensee in relation to SBR Tender Option Costs that are conditional on the recipient of such payments not being awarded a SBR contract in the relevant tender. |
| SBR Tender Option Costs | means the material, incremental, short-term costs incurred by potential providers of SBR which are necessary to facilitate their participation in a tender for SBR contracts for Relevant Year t. |
| SBR Testing | means actions taken to verify that the SBR service is capable of delivery in accordance with the terms of the relevant SBR contract; |
| SBR Testing Payments | means payments made by the licensee pursuant to a contract for the provision of SBR, in respect of SBR Testing; |
| SBR Utilisation Payments | means payments made by the licensee pursuant to a contract for the provision of SBR, in respect of delivery of the SBR service in response to instructions received from the licensee instructing such delivery; |

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Supplemental Balancing Reserve (or “SBR”) means the balancing service of that name as described in the document the licensee is required to establish in accordance with paragraph 3 of Standard Condition C16;

Volume Cap means the mechanism identified and determined in accordance with the Volume Requirement Methodology for determining the maximum aggregate volume of DSBR and SBR that the licensee could seek to procure.

Special Condition 4L. Financial incentives on EMR

Introduction

- 4L.1 The purpose of this condition is to establish arrangements to determine an adjustment to the licensee's Maximum SO Internal Revenue (either positive or negative) in Relevant Year t by means of the term $SOEMRINC_t$ for the purposes of paragraphs 4A.3 and 4A.4 of Special Condition 4A (Restriction of System Operator Internal Revenue) as a result of the financial incentives placed upon the licensee relating to the EMR Functions.
- 4L.2 The financial incentives placed upon the licensee are as follows:
- (a) the dispute resolution incentive which adjusts the licensee's revenue depending on how many of the Reviewable Decisions made by the licensee are overturned by the Authority (the "Dispute Resolution Incentive");
 - (b) the demand forecasting accuracy incentive which adjusts the licensee's revenue as a result of the accuracy with which the licensee forecasts Peak National Demand (the "Peak National Demand Forecasting Accuracy Incentive");
 - (c) the demand side response incentive which adjusts the licensee's revenue as a result of the licensee encouraging and facilitating participation of Demand Side Response providers in the Year Ahead Capacity Auction (the "Demand Side Response Incentive"); and
 - (d) the customer and stakeholder satisfaction survey incentive which adjusts the licensee's revenue depending on the licensee's performance as measured by the customer and stakeholder satisfaction survey (the "Customer and Stakeholder Satisfaction Survey Incentive") which is described in Part F of this condition.
- 4L.3 The "Regulations" for the purposes of this condition are:
- (a) The Contracts for Difference (Allocation) Regulations 2014, as amended from time to time (the "CfD Regulations"); and
 - (b) The Electricity Capacity Regulations 2014, as amended from time to time (the "CM Regulations").

Part A: Calculation of $SOEMRINC_t$

- 4L.4 For the purposes of paragraphs 4A.3 and 4A.4 in Special Condition 4A the value of the term $SOEMRINC_t$ is derived in accordance with the following formula:

$$SOEMRINC_t = DRI_t + DFA_t + DSR_t + CSSS_t$$

where:

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| SOEMRINC _t | means the adjustment to the licensee's Maximum SO Internal Revenue (either positive or negative) in Relevant Year t as a result of the financial incentives placed upon the licensee in relation to the EMR Functions, collectively known as the System Operator Electricity Market Reform Incentives. |
| DRI _t | means the Dispute Resolution Incentive as described in paragraph 4L.2(a) above and calculated pursuant to the provisions in Part B of this condition. |
| DFA _t | means the Peak National Demand Forecasting Accuracy Incentive as described in paragraph 4L.2(b) above and calculated pursuant to the provisions in Part C of this condition. |
| DSR _t | means the Demand Side Response Incentive as described in paragraph 4L.2(c) above and calculated pursuant to the provisions in Part D of this condition. |
| CSSS _t | means the Customer and Stakeholder Satisfaction Survey Incentive as described in paragraph 4L.2(d) above and calculated pursuant to the provisions in Part E of this condition. |

Part B: Calculation of DRI_t

4L.5 The DRI_t term has the value derived in accordance with the following formula:

$$DRI_t = CfDQD_t + CMQD_t + CMECAQD_t + CANMR_t$$

where:

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| CfDQD _t | means the revenue adjustment for the licensee related to CfD Qualification Decisions . It is equal to: for Relevant Years 2016/17 and 2017/18 the amount shown in column 1 of the table in Schedule 1 of this condition; and for Relevant Years from 2018/19 onwards the amount shown in column 1 of the table in Schedule 2 of this condition, against the number of decisions made in relation to CfD Qualification Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation 46 of the CfD Regulations. |
| CMQD _t | means the revenue adjustment for the licensee related to CM Qualification Decisions. It is equal to: |

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for Relevant Years 2016/17 and 2017/18 the amount shown in column 2 of the table in Schedule 1 of this condition; and

for Relevant Years from 2018/19 onwards the amount shown in column 2 of the table in Schedule 2 of this condition,

against the number of decisions made in relation to CM Qualification Decisions in Relevant Year $t-2$, which have been overturned by the Authority under regulation 71 of the CM Regulations.

$CMECAQD_t$

means the revenue adjustment for the licensee related to CM Early Capacity Auction Qualification Decisions.

It is equal to, for Relevant Year 2018/19, the amount shown in column 3 of the table in Schedule 2 of this condition, against the number of decisions made in relation to CM Early Capacity Auction Qualification Decisions in Relevant Year 2016/17, which have been overturned by the Authority under regulation 71 of the CM Regulations.

Where a CM Early Capacity Auction Qualification Decision is overturned by the Authority and that decision is materially the same as a CM Qualification Decision that has also been overturned by the Authority for the same CMU, the CM Early Capacity Auction Qualification Decision overturned will not count for the purposes of this incentive.

$CANMR_t$

means the revenue adjustment for the licensee related to Capacity Agreement Notice Decisions and Capacity Market Register Decisions. It is equal to:

for Relevant Years 2016/17 and 2017/18 the amount shown in column 3 of the table in Schedule 1 of this condition against the number of decisions made in relation to CM Capacity Agreement Notice (“CAN”) Decisions and CM Capacity Market Register (“CMR”) Decisions in Relevant Year $t-2$, which have been overturned by the Authority under regulation 71 of the CM Regulations.

For all other years, $CANMR_t$ shall take the value zero.

- 4L.6 If no CfD qualification process took place either in or in respect of Relevant Year t-2, CfDQD_t shall equal zero and if no CM pre-qualification process took place either in or in respect of Relevant Year t-2, CMQD_t shall equal zero.
- 4L.7 The Authority shall, after consultation with the licensee, and having regard to the rest of Part B of this condition, direct the value of DRI_t for Relevant Year t.
- 4L.8 The direction made pursuant paragraph 4L.7 shall be made by the Authority on or before 30 November in the year preceding Relevant Year t.

Part C: Calculation of DFA_t

4L.9 The DFA_t term is derived in accordance with the following formula:

$$DFA_t = DFAA_{t-2} + DFAB_{t-2} + DFAC_{t-2}$$

where:

$$DFAA_{t-2} = \pounds 1,000,000 \times \frac{4\% - \min(DFEA_{t-2}, 8\%)}{4\%}$$

$$DFAB_{t-2} = \pounds 2,000,000 \times \frac{2\% - \min(DFEB_{t-2}, 4\%)}{2\%}$$

$$DFAC_{t-2} = \pounds 2,000,000 \times \frac{2\% - \min(DFEC_{t-2}, 4\%)}{2\%}$$

- DFAA_{t-2} means the Peak National Demand Forecasting Accuracy Incentive for Relevant year t-2 arising from the Peak National Demand Forecast made in year t-6.
- DFAB_{t-2} means the Peak National Demand Forecasting Accuracy Incentive for year t-2 arising from the Peak National Demand Forecast made in year t-3.
- DFAC_{t-2} means the Peak National Demand Forecasting Accuracy Incentive for year 2017/18 arising from the Peak National Demand Forecast made in year 2016/17.
- DFEA_{t-2} means the difference between Peak National Demand observed in year t-2 and the Peak National Demand Forecast for year t-2 made in year t-6 expressed as an absolute percentage.

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| DFEB _{t-2} | means the difference between Peak National Demand observed in year t-2 and the Peak National Demand Forecast for year t-2 made in year t-3 expressed as an absolute percentage. |
| DFEC _{t-2} | means the difference between Peak National Demand observed in Relevant Year 2017/18 and the Peak National Demand Forecast for year 2017/18 made in year 2016/17 expressed as an absolute percentage. |

- 4L.10 If either of the Peak National Demand Forecasts in DFEA, DFEB or DFEC are not available, or such forecast has been prepared before this condition came into force (1 April 2016), then DFAA, DFAB or DFAC as applicable shall take the value zero.
- 4L.11 The Weather Correction Methodology used for calculating Peak National Demand will be the Weather Correction Methodology in place at the time each Peak National Demand Forecast was produced.
- 4L.12 The Weather Correction Methodology must be published by the licensee at the same time as the Electricity Capacity Report that uses that Peak National Demand Forecast.
- 4L.13 The licensee shall write annually to the Authority, at the same time it publishes the Electricity Capacity Report, setting out the steps it has taken to improve its Peak System Demand Forecast and publish this letter on its website.

Part D: Calculation of DSR_t

- 4L.14 The DSR_t term is derived in accordance with the following formula except in respect of any Relevant Year up to and including the Relevant Year when the first Year Ahead Capacity Auction takes place, where the value of DSR_t is nil:

If $DSRC_t \geq DSRT_t + 0.2$, then

$$DSR_t = \text{£}1,000,000 \times \frac{\min(DSRC_t, DSRT_t + 2) - DSRT_t - 0.2}{1.8}$$

If $DSRT_t + 0.2 > DSRC_t \geq DSRT_t - 0.2$, then

$$DSR_t = \text{£}0$$

If $DSRC_t < DSRT_t - 0.2$, then

$$DSR_t = \text{£}1,000,000 \times \frac{\max(DSRC_t, DSRT_t - 2) - DSRT_t + 0.2}{1.8}$$

where:

- DSR_t means the revenue adjustment for the licensee related to additional volume of Demand Side Response Capacity that pre-qualifies for the Year Ahead Capacity Auction for delivering electricity capacity one year ahead in Relevant Year t-2.
- $DSRC_t$ means the volume of Demand Side Response Capacity (expressed in gigawatts to three decimal places) that pre-qualifies for the Year Ahead Capacity Auction for delivering electricity capacity one year ahead in Relevant Year t-2.
- $DSRT_t$ means the target for the volume of Demand Side Response Capacity to be delivered.

For the first Relevant Year following the first Year Ahead Capacity Auction $DSRT_t$ is equal to the volume in gigawatts (expressed to three decimal places) of pre-qualified Demand Side Response Capacity in the first Year Ahead Capacity Auction.

For the second and subsequent Relevant Years following the first Year Ahead Capacity Auction, $DSRT_t$ is calculated as the average of the volume in gigawatts (expressed to three decimal places) of pre-qualified Demand Side Response Capacity in the two previous Year Ahead Capacity Auctions.

4L.15 The licensee shall, as soon as practicable, but in any event no later than three months after the corresponding Year Ahead Capacity Auction pre-qualification round, submit to the Authority a report setting out the steps that it has taken in each Year Ahead Capacity Auction pre-qualification round to encourage and facilitate the participation of Demand Side Response, including how it has ensured that Demand Side Response providers understand the implications of capacity market participation.

4L.16 The licensee shall publish the report described in paragraph 4L.15 on its website.

Part E: Calculation of $CSSS_t$

4L.17 The $CSSS_t$ term is derived in accordance with the following formula:

$$CSSS_t = CSSSCfD_t + CSSSCM_t$$

where:

$CSSSCfD_t$ means the adjustment to revenues resulting from the incentive on Contracts for Difference (“CfD”) Customer and Stakeholder Satisfaction Survey Scores in Relevant Year t-2 as calculated below.

$CSSSCM_t$ means the adjustment to revenues resulting from the incentive on Capacity Market (“CM”) Customer and Stakeholder Satisfaction Survey Scores in Relevant Year t-2 as calculated below.

If $CfDS_{t-2} \geq CfDT$, then:

$$CSSSCfD_t = \pounds300,000 \times \frac{\min(CfDS_{t-2}, CfDC) - CfDT}{CfDC - CfDT}$$

If $CfDS_{t-2} < CfDT$, then:

$$CSSSCfD_t = -\pounds300,000 \times \frac{CfDT - \max(CfDS_{t-2}, CfDF)}{CfDT - CfDF}$$

If $CMS_{t-2} \geq CMT$, then:

$$CSSSCM_t = \pounds300,000 \times \frac{\min(CMS_{t-2}, CMC) - CMT}{CMC - CMT}$$

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If $CMS_{t-2} < CMT$, then:

$$CSSSCM_t = -£300,000 \times \frac{CMT - \max(CMS_{t-2}, CMF)}{CMT - CMF}$$

where:

| | |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CfDS _{t-2} | means the arithmetic average of all CfD Customer and Stakeholder Satisfaction Survey Scores. |
| CfDT | means the target for all CfD Customer and Stakeholder Satisfaction Survey Scores. CfDT is equal to the higher of: (i) CfDS _k where k equals 2015/16 or if no CfD allocation round commenced in 2015/16, the first Relevant Year in which a CfD allocation round takes place, rounded to one decimal place, and (ii) 5.0. |
| CfDC | means the score cap applying to all CfD Customer and Stakeholder Satisfaction Survey Scores and is equal to CfDT + CfDSD _k , rounded to one decimal place, but in any event, must not be lower than CfDT + 1. |
| CfDF | means the score floor applying to all CfD Customer and Stakeholder Satisfaction Survey Scores and is equal to CfDT – CfDSD _k , rounded to one decimal place, but in any event, must not be higher than CfDT – 1. |
| CfDSD _k | means the standard deviation of all CfD Customer and Stakeholder Satisfaction Survey Scores in year k where k equals 2015/16 or if no CfD allocation round takes place in 2015/16, the first Relevant Year in which a CfD allocation round takes place. The standard deviation is calculated as the square root of the sum of the squared variances from the population average. |
| CMS _{t-2} | means the arithmetic average of all CM Customer and Stakeholder Satisfaction Survey Scores. |
| CMT | means the target for all CM Customer and Stakeholder Satisfaction Survey Scores. CMT is equal to the higher of: (i) CMS _k where k equals 2015/16 or if no CM auction commenced in 2015/16, the first Relevant Year in which a CM auction takes place, rounded to one decimal place, and |

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| | (ii) 5.0. |
| CMC | means the score cap applying to all CM Customer and Stakeholder Satisfaction Survey Scores and is equal to $CMT + CMSD_k$, rounded to one decimal place, but in any event, must not be lower than $CMT + 1$. |
| CMF | means the score floor applying to all CM Customer and Stakeholder Satisfaction Survey Scores and is equal to $CMT - CMSD_k$, rounded to one decimal place, but in any event, must not be higher than $CMT - 1$. |
| $CMSD_k$ | means the standard deviation of all CM Customer and Stakeholder Satisfaction Survey Scores in year k where k equals 2015/16 or if no CM auction takes place in 2015/16, the first Relevant Year in which a CM auction takes place. The standard deviation is calculated as the square root of the sum of the squared variances from the population average. |

- 4L.18 If no results of a CfD allocation round were published either in or in respect of Relevant Year t-2, then $CSSSCfD_t$ shall take the value zero, and the licensee is not obliged to conduct the CfD Customer and Stakeholder Satisfaction Survey.
- 4L.19 In case of multiple CfD allocation rounds in Relevant Year t-2, the licensee is only obliged to conduct one CfD Customer and Stakeholder Satisfaction Survey.
- 4L.20 If no results of a capacity market auction were published either in or in respect of Relevant Year t-2, then $CSSSCM_t$ shall take the value zero, and the licensee is not obliged to conduct the CM Customer and Stakeholder Satisfaction Survey.
- 4L.21 In case of multiple capacity market auctions in Relevant Year t-2, the licensee is only obliged to conduct one CM Customer and Stakeholder Satisfaction Survey.

Part F: Customer and Stakeholder Satisfaction Surveys

- 4L.22 In each CM and CfD Customer and Stakeholder Satisfaction Survey, the licensee may include such questions as it deems appropriate, subject to the inclusion of one question that asks for overall satisfaction with the licensee's performance of its CfD or CM activity respectively to be rated on a scale of 1 to 10, when 1 is low and 10 is high.
- 4L.23 The licensee must report on the outcomes of each overall customer and stakeholder satisfaction question in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).
- 4L.24 The licensee must publish the outcomes from these surveys on its website within three months of these surveys taking place.

4L.25 The Authority will review the licensee’s approach to conducting the surveys and reporting the outcome of the satisfaction questions as required by paragraph 4L.22 of this condition and provide feedback to the licensee.

Part G: Definitions

4L.26 The Definitions in this condition will have the following meaning:

| | |
|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Annual Average Cold Spell Conditions | as defined in the Grid Code; |
| Capacity Agreement Notice | as defined in regulation 2 of the CM Regulations; |
| Capacity Market Register | as defined in regulation 2 of the CM Regulations; |
| CfD Qualification Decisions | means decisions made by the licensee under regulation 20(4) of the CfD Regulations to uphold Non-qualification Determinations; |
| CfD Customer and Stakeholder Satisfaction Survey Score | means the score from 1 to 10 that a survey participant assigns to the question referred to in paragraph 4L.22 of this condition in Relevant Year t-2; |
| CM Capacity Agreement Notice (“CAN”) Decisions | means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold the decision not to amend the Capacity Agreement Notice; |
| CM Capacity Market Register (“CMR”) Decisions | means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold the decision not to rectify the Capacity Market Register; |
| CM Customer and Stakeholder Satisfaction Survey Score | means the score from 1 to 10 that a survey participant assigns to the question referred to in paragraph 4L.22 of this condition in Relevant Year t-2; |

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| | |
|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CM Qualification Decisions | means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions; |
| CM Early Capacity Auction Qualification Decisions | means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions in relation to the Early Capacity Auction in Relevant Year 2016/17; |
| Demand Side Response | means a commitment by a person to provide an amount of electricity capacity by either reducing the import of electricity or exporting electricity generated (as more fully defined in the CM Regulations); |
| Demand Side Response Capacity | means amount of electricity capacity made available by Demand Side Response providers; |
| Electricity Capacity Report | as defined in regulation 7 of the CM Regulations; |
| EMR Functions | has the same meaning as the term “EMR functions” in Chapter 5 of Part 2 of the Energy Act 2013; |
| National Demand | as defined in the Grid Code; |
| Non-qualification Determinations | as defined in regulation 19(2)(b) of the CfD Regulations; |
| Peak National Demand | means the outturn peak National Demand adjusted in accordance with the Weather Correction Methodology; |
| Peak National Demand Forecast | means the one-year or four-year ahead forecast of Peak National Demand that is associated with the licensee’s Peak System Demand Forecast and estimate of capacity to meet that Peak System Demand Forecast in the Electricity Capacity Report ; |

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| Peak System Demand Forecast | means the forecast in the Electricity Capacity Report of peak demand across the whole of the electricity system met by all forms of generation; which includes forecasts of Peak National Demand, peak demand met by distributed generation and peak demand reduction by Demand Side Response . |
| Prequalification Decisions | as defined in regulation 2 of the CM Regulations; |
| Reviewable Decisions | means CfD Qualification Decisions, CM Qualification Decisions, CM Capacity Agreement Notice Decisions and CM Capacity Market Register Decisions; |
| Early Capacity Auction | means the additional capacity auction held in Relevant Year 2016/17 to provide capacity in Relevant Year 2017/18; |
| Weather Correction Methodology | means the methodology used by the licensee at the time a Peak National Demand Forecast was produced to correct the associated outturn Peak National Demand to Annual Average Cold Spell Conditions; |
| Year Ahead Capacity Auction | means a capacity auction held not less than one year and not more than two years before the start of the delivery year for which the capacity auction is held (as more fully defined in the CM Regulations). |

Schedule 1

Components of the term DRI_t in 2009/10 prices for qualification decisions taken in respect of CfD allocation and/or CM auctions conducted in 2014/15 and 2015/16

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| | (1) | (2) | (3) |
|---------------------------------------|------------------------------------------|-----------------------------------------|------------------------------------------|
| Number of overturned decisions | CfDQD_t £000s | CMQD_t £000s | CANMR_t £000s |
| No overturned decisions | 50 | 50 | 25 |
| 1 overturned decision | 0 | 0 | 0 |
| 2 overturned decisions | -10 | -10 | -5 |
| 3 overturned decisions | -20 | -20 | -10 |
| 4 overturned decisions | -30 | -30 | -15 |
| 5 overturned decisions | -40 | -40 | -20 |
| 6 or more overturned decisions | -50 | -50 | -25 |

Schedule 2

Components of the term DRI_t in 2009/10 prices for qualification decisions taken in respect of CfD allocation and/or CM auctions conducted from 2016/17 onwards

| | (1) | (2) | (3) |
|---------------------------------------|------------------------------------------|-----------------------------------------|--------------------------------------------|
| Number of overturned decisions | CfDQD_t £000s | CMQD_t £000s | CMECAQD_t £000s |
| No overturned decisions | 100 | 100 | 50 |
| 1 overturned decision | 0 | 0 | 0 |
| 2 overturned decisions | -35 | -35 | -18 |
| 3 overturned decisions | -65 | -65 | -35 |
| 4 or more overturned decisions | -100 | -100 | -50 |

Chapter 5: Price Control Financial Instruments

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Special Condition 5A. Governance of ET1 Price Control Financial Instruments

Introduction

- 5A.1 The purpose of this condition is to establish a change control framework for each of the following ET1 Price Control Financial Instruments, namely:
- (a) the ET1 Price Control Financial Handbook, which contains the ET1 Price Control Financial Methodologies; and
 - (b) the ET1 Price Control Financial Model.
- 5A.2 Each of the ET1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 5A.3) may only be modified by the Authority in accordance with the provisions of Parts A and B below.
- 5A.3 Parts A and B are without prejudice to the powers of the Authority to modify any part of this condition (including any ET1 Price Control Financial Instrument) under sections 11A and 11B of the Act.

Part A: Assessment of the likely impact of an intended modification

- 5A.4 Before initiating any modification of an ET1 Price Control Financial Instrument, the Authority must assess whether that modification would be likely to have a significant impact on any of the following persons:
- (a) the licensee;
 - (b) any other electricity Transmission Licensee in whose licence a condition equivalent to this one has effect;
 - (c) any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
 - (d) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.
- 5A.5 In making the assessment required by paragraph 5A.4, the Authority will:
- (a) have particular regard to any impact which an intended modification would be likely to have on any component of the licensee's allowed revenues or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and
 - (b) in respect of modifications to the ET1 Price Control Financial Model, have regard to any views expressed by the ET1 Price Control Financial Model Working Group.
- 5A.6 For the purposes of paragraph 5A.4, it is to be presumed (subject to paragraph 5A.7) that a modification which serves to correct a manifest error contained in an ET1 Price

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Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.

- 5A.7 The presumption established by paragraph 5A.6 is without prejudice to the licensee's right under paragraph 5A.13 to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 5A.4 or 5A.5(a).

Part B: Circumstances in which a modification may (and may not) be made

- 5A.8 If, having carried out the required assessment under Part A above, the Authority considers that an intended modification of an ET1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 5A.4, it may modify that instrument in accordance with paragraphs 5A.9 to 5A.12 below.
- 5A.9 Before making any modification of an ET1 Price Control Financial Instrument under this Part B, the Authority will give the licensee and all electricity Transmission Licensees in whose licence a condition equivalent to this one has effect a notice that:
- (a) sets out the proposed modification and the date from which the Authority proposes that it should have effect;
 - (b) explains why in the Authority's opinion the modification is necessary;
 - (c) sets out the Authority's view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 5A.4; and
 - (d) specifies a period of at least 14 days from the date of the notice within which any representations with respect to the proposal may be made.
- 5A.10 The Authority will publish any notice issued under paragraph 5A.9 on its website.
- 5A.11 The Authority will consider any representations that are duly made and not withdrawn before deciding whether to proceed with the modification under this Part B.
- 5A.12 Following issue of the notice referred to in paragraph 5A.9 of this condition and consideration of representations referred to in paragraph 5A.11 of this condition, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism by which that date is to be determined).
- 5A.13 If the licensee demonstrates in representations made under paragraph 5A.9(d) that it reasonably considers that the proposed modification would be likely to have a significant impact of the type referred to in paragraph 5A.4 or 5A.5(a), the Authority may not make the modification under this Part B.

Part C: Availability and updating of ET1 Price Control Financial Instruments

- 5A.14 This Part C has effect in relation to the publication and availability of the ET1 Price Control Financial Handbook, including the constituent ET1 Price Control Financial Methodologies and the ET1 Price Control Financial Model.
- 5A.15 The Authority will ensure that any modifications of the ET1 Price Control Financial Handbook, including the constituent ET1 Price Control Financial Methodologies,

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whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Handbook maintained on the Authority's website.

- 5A.16 The Authority will ensure that any modifications of the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Model maintained on the Authority's Website.
- 5A.17 Without limiting the general effect of paragraph 5A.16, the Authority will by not later than 30 November in each Relevant Year t-1:
- (a) publish on its website, in Microsoft Excel ® format, the version of the ET1 Price Control Financial Model that will be used to determine the value of the terms MOD and SOMOD with respect to Relevant Year t for the purposes of Special Condition 3A and Special Condition 4A;
 - (b) ensure that the electronic name of the file is "ET1 PCFM" followed by "November 20XX" where 20XX represents the calendar year containing the month of November in Relevant Year t-1;
 - (c) ensure that the words "ET1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November" followed by the Relevant Year t-1 expressed in the format 20XX/XX are included as text within the file itself; and
 - (d) publish an up-to-date schedule of any modifications that have been made to the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.

Part D: Interpretation

- 5A.18 This condition should be read and construed in conjunction with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

Special Condition 5B. Annual Iteration Process for the ET1 Price Control Financial Model

Introduction

- 5B.1 The purpose of this condition is to set out the steps of the Annual Iteration Process, that the Authority will, subject to paragraph 5B.2, carry out in each Relevant Year $t-1$, in relation to the ET1 Price Control Financial Model in order to determine the values of the terms MOD and SOMOD for Relevant Year t , for the purposes of the formulae that are specified in Special Condition 3A (Restriction of Transmission Network Revenue) and Special Condition 4A (Restriction of System Operator Internal Revenue).
- 5B.2 The last Relevant Year in which there will be an Annual Iteration Process for the ET1 Price Control Financial Model is Relevant Year 2019/20 for the purpose of determining the values of the terms MOD and SOMOD for Relevant Year 2020/21.
- 5B.3 The Annual Iteration Process will consist of, and will be carried out by the Authority in accordance with, the steps set out in Part A below, in a manner that is in accordance with the procedures set out in chapter 1 of the ET1 Price Control Financial Handbook.
- 5B.4 The outcome of the Annual Iteration Process with respect to the value of the terms MOD_t and $SOMOD_t$ will be notified to the licensee in accordance with Part B of this condition.

Part A: Steps comprising the Annual Iteration Process

- 5B.5 The Authority will save a record copy of the ET1 Price Control Financial Model in the form, and with the content it has before any of the steps of the Annual Iteration Process set out below are commenced.
- 5B.6 Step 1: The Authority will make revisions to PCFM Variable Values where and to the extent required in relation to adjustments for the licensee under:
- (a) Special Condition 6A (Legacy price control adjustments – Transmission Owner) and/or Special Condition 7A (Legacy price control adjustments – System Operator);
 - (b) Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and/or Special Condition 7B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator);
 - (c) Special Condition 6D (Specified financial adjustments – Transmission Owner) and/or Special Condition 7C (Specified financial adjustments – System Operator);
 - (d) Special Condition 6E (The Innovation Roll-out Mechanism);
 - (e) Special Condition 6F (Baseline Generation Connection Outputs and Generation Connections volume driver);

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- (f) Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas);
- (g) Special Condition 6H (Arrangements for the recovery of uncertain costs) and/or Special Condition 7D (Arrangements for the recovery of SO uncertain costs);
- (h) Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure);
- (i) Special Condition 6J (Allowed Expenditure for Incremental Wider Works);
- (j) Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver); and
- (k) Special Condition 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver).

5B.7 Step 2: The Authority will cause the ET1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the PCFM Variable Values Table(s) for the licensee, where and to the extent required.

5B.8 Step 3: The Authority will identify and record the values of the terms MOD_t and $SOMOD_t$ for the licensee, calculated as a result of Step 2 and shown as outputs of the ET1 Price Control Financial Model, including the effects of any revised PCFM Variable Values which, for the avoidance of doubt, will not have any retrospective effect on any previously directed value of the term MOD or $SOMOD$.

5B.9 Step 4: The Authority will give a direction to the licensee, in accordance with Part B of this condition, setting out the values for the terms MOD_t and $SOMOD_t$ which are to be used in the formulae set out in Special Conditions 3A and 4A for the purposes of ascertaining the values of the terms BR_t and $SOBR_t$ respectively.

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

5B.10 Subject to paragraph 5B.2, the values of the terms MOD and $SOMOD$ for Relevant Year t will be directed by the Authority no later than 30 November in each Relevant Year $t-1$.

5B.11 If, subject to paragraph 5B.2, for any reason, the Authority does not direct a value for one or both of the terms MOD_t or $SOMOD_t$ by 30 November in any Relevant Year $t-1$, then the Annual Iteration Process set out in Part A of this condition will not have been completed and the provisions set out in paragraphs 5B.12 and 5B.13 will apply.

5B.12 The Authority will complete the Annual Iteration Process set out in Part A of this condition as soon as is reasonably practicable after 30 November in the Relevant Year $t-1$ concerned by directing values for MOD_t and $SOMOD_t$.

5B.13 In the intervening period (between the 30 November in the Relevant Year $t-1$ concerned and the making of a direction under paragraph 5B.12), the values of MOD_t and $SOMOD_t$ will be held to be equal to values ascertained by:

- (a) taking a copy of the ET1 Price Control Financial Model in its state following the last completed Annual Iteration Process which, for the avoidance of doubt, will exclude the effect of any functional modifications under Special

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Condition 5A (Governance of ET1 Price Control Financial Instruments) made after the completion of that Annual Iteration Process;

- (b) using the selection facilities on the user interface sheet contained in that copy to select:
 - i. the name of the licensee; and
 - ii. the Relevant year equating to Relevant Year t ; and
- (c) recording the values of the terms MOD_t and $SOMOD_t$ for the licensee that are shown as output values.

5B.14 For the avoidance of doubt, neither:

- (a) an Annual Iteration Process for the ET1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor
- (b) a change to the Relevant Year included in the name of and text within the ET1 Price Control Financial Model (as referred to at paragraphs 5A.17(b) and (c) of Special Condition 5A,

will constitute a modification of the ET1 Price Control Financial Model within the meaning of Part B of Special Condition 5A.

5B.15 This condition should be read and construed in conjunction with Special Condition 5A.

Chapter 6: Annual Iteration Process - Adjustments to the Transmission Network Revenue Restriction

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

Introduction

- 6A.1 The purpose of this condition is to determine any appropriate revisions to the PCFM Variable Values for Relevant Year 2013/14, relating to the items specified in Part A of this condition, for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- 6A.2 The application of the mechanisms set out in this condition ensures that as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the licensee's Base Transmission Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the licensee in respect of:
- (a) activities carried out by the licensee;
 - (b) incentivised performance by the licensee; and/or
 - (c) costs or expenditure incurred by the licensee,
- in Relevant Years prior to Relevant Year 2013/14 (the 'legacy period'), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.
- 6A.3 This condition should be read and construed in conjunction with, Special Condition 5B and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).
- 6A.4 There are no provisions to revise PCFM Variable Values relating to legacy price control adjustments for Relevant Years other than Relevant Year 2013/14 because, under the Annual Iteration Process, all of the calculations necessary to achieve the result referred to in paragraph 6A.2 are made using values for Relevant Year 2013/14.

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

- 6A.5 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) legacy price control revenue allowance adjustments (LAR values); and
 - (b) legacy price control adjustments to RAV balance additions (LRAV values),
- for Relevant Year 2013/14.
- 6A.6 The LAR and LRAV values for each Relevant Year are zero as at 1 April 2013.

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

- (a) determine whether any LAR or LRAV values for Relevant Year 2013/14 should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined.

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

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

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

where:

| | |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| TAR | means the revenue allowance adjustment in respect of the licensee's gearing levels and corporate debt interest costs in the legacy period, determined in accordance with Part B of this condition. |
| CAR | means the revenue allowance adjustment in respect of the Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition. |
| IAR | means the revenue allowance adjustment in respect of transmission asset owner incentives scheme activity in the legacy period, determined in accordance with Part B of this condition and the provisions of Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). |
| SAR | means the revenue allowance adjustment in respect of logged up and security costs in the legacy period, determined in accordance with Part B of this condition. |

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

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

where:

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

6A.11 The effect of using revised LAR and LRAV values for Relevant Year 2013/14 in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, in respect of any particular Annual Iteration Process, no previously directed value of the term MOD will be retrospectively affected.

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

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

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

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

6A.14 The first Relevant Year in which the Authority will make determinations pursuant to paragraph 6A.13 is Relevant Year 2013/14, for the purpose of determining revisions to

LAR and LRAV values for the Annual Iteration Process that will take place by 30 November 2013.

Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority

- 6A.15 Subject to paragraph 6A.8, revised LAR values and LRAV values for Relevant Year 2013/14, determined by the Authority in accordance with the provisions of this condition, will be directed by the Authority by 30 November in each Relevant Year t-1 starting from 30 November 2013.
- 6A.16 Any direction issued under paragraph 6A.15 will include a statement of the component term values determined under Part B.
- 6A.17 Before issuing any directions under paragraph 6A.15, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 6A.18 The notice referred to in paragraph 6A.17 will:
- (a) state that any revised LAR and LRAV values for Relevant Year 2013/14 have been determined in accordance with Parts A and B of this condition; and
 - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised LAR or LRAV values.
- 6A.19 The Authority will have due regard to any representations duly received under paragraph 6A.18, and give reasons for its decisions in relation to them.
- 6A.20 If, subject to paragraph 6A.8, for any reason in any Relevant Year t-1, the Authority does not make a required direction in relation to revised LAR and LRAV values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraph 5B.12 of Special Condition 5B, and in any case, before directing a value for MOD_t under that paragraph.

Part D: Interpretation

- 6A.21 Definitions used in this condition and defined in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

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

Introduction

6B.1 The purpose of this condition is:

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

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

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

- (a) the specification of values (set out in Appendix 1 of this condition) of the TII Assumed Allowance for each TII Year, the TII Actual Allowance for each TII Year, the TII Initial Allowance for each TII Year, and the TII Allowance Adjustment for each TII Year;

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

6B.4 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for the Relevant Year t for the purposes of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the licensee's Base Transmission Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance, adjustments attributable to the licensee in respect of:

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

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

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

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

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

6B.7 Through the determination of IAR values and IRAV values under Special Condition 6A in line with the methodology set out in Part 3 of Chapter 15 of the ET1 Price Control Financial Handbook, revenue adjustments and associated RAV adjustments may be made by the Authority, as a consequence of the Annual Iteration Process (and retaining the effect of the provisions of paragraphs 1C and 2A-2D of the legacy TII condition in the form in which that condition was included in this licence as at 31 March 2013), to reflect:

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

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

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

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

- (a) the value of the TII Provisional Revenue Adjustment Term given in Table 3 of Appendix 1 of this condition and which corresponds to the $CxIncTO_t$ term in paragraph 1C(a) of the legacy TII condition; and
- (b) the relevant TII Sharing Factor specified in Table 5 of Appendix 1 of this condition to apply to each Transmission Investment Incentives Project for each TII Year.

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

- (a) the same as if the project-specific capital expenditure allowances reflected in the TII Actual Allowance in respect of a given TII Year n had been known and taken into account by the Authority in the legacy period for the purposes of setting the licensee's allowed revenue for that same TII Year n ; and

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- (b) the same as if the revenue adjustment made under paragraph 6B.7(b) of this condition had been taken into account by the Authority for the purposes of setting the licensee's allowed revenue for the Relevant Year commencing 1 April 2013.

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

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

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

6B.12 This Part (which should be read in conjunction with Appendix 2 of this condition) applies to Scheduled Projects only, and provides for a TII Asset Value Adjusting Event (TII AVAE) to have effect in relation to Funded Pre-construction Works and/or Funded Construction Works on Scheduled Project i in respect of the TII Year 2012/13.

Description of TII AVAE

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

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

Licensee's notice to the Authority

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

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

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

6B.16 Where the licensee notifies the Authority of a TII AVAE under paragraph 6B.14 of this condition, the licensee must ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

Determination by the Authority

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

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

- (a) whether a TII AVAE has occurred in respect of the Scheduled Project i; and
- (b) where the Authority determines that a TII AVAE has occurred in respect of the Scheduled Project i:
 - (i) whether the Scheduled Project i will remain economically efficient as a consequence of that TII AVAE; and
 - (ii) an adjustment to the pre-construction cost allowance and/or construction cost allowance (as appropriate) and associated key project milestones (as applicable) specified in Appendix 2 of this condition in respect of the Scheduled Project i for the TII Year 2012/13 that is to be given effect through a modification under Part F of this condition in relation to this paragraph.

6B.19 Where the Authority determines

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

Revocation

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

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

6B.21 This Part (which should be read in conjunction with Appendix 2 of this condition) applies to Scheduled Projects only, and provides for a TII Output Measures Adjusting Event (TII OMAE) to have effect in relation to Funded Construction Works on a Scheduled Project i.

Description of TII OMAE

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

Licensee's notice to the Authority

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

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

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

Determination by the Authority

6B.25 Where the Authority receives a notice under paragraph 6B.23 of this condition, the Authority may seek any other analysis or information that the Authority considers

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

- 6B.26 Subject to the provisions of paragraph 6B.25 of this condition, and following consultation with such other parties as it considers may be affected by its determination, the Authority will determine:
- (a) whether a TII OMAE has occurred in respect of the Scheduled Project i; and
 - (b) where the Authority determines that a TII OMAE has occurred in respect of the Scheduled Project i, an adjustment to the output measures specified in Appendix 2 of this condition in respect of the Scheduled Project i that is to be given effect through a modification under Part F of this condition in relation to this paragraph.

Revocation

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

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

- 6B.28 This Part applies to all Transmission Investment Incentives Projects and sets out the basis on which information should be provided to the Authority. The provisions of this Part take into account information previously provided by the licensee to the Authority in relation to Transmission Investment Incentives Projects for one or more TII Years under paragraph 8 of the legacy TII condition.
- 6B.29 For each Transmission Investment Incentives Project i, the licensee must provide the Authority with the following in respect of Funded Pre-construction Works, Funded Construction Works and/or Further Works as applicable:
- (a) not later than 30 June 2013 (or such later date as the Authority may notify to the licensee):
 - (i) a pre-construction technical report, setting out the technical milestones achieved for Funded Pre-construction Works and/or Further Works on the Transmission Investment Incentives Project i in respect of the TII Year 2012/13 and, in the case of Funded Pre-construction Works, the extent to which the Transmission Investment Incentives Project i complies with the key project milestones (as applicable) specified in

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

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

Part E: Further works

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

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

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

Part F: Procedure for the Authority's directions

6B.34 The Authority may direct modifications to:

- (a) Appendix 1 of this condition in order to:
 - (i) reflect the determination of amendments to Table 1 and Table 2 of this condition to reflect revised values of the TII Allowance Adjustment in respect of one or more TII Years in accordance with paragraphs 6B.8(b) and 6B.11 of this condition; and/or
 - (ii) reflect the determination of amendments to Table 4 to add details in respect of additional Further Works in accordance with paragraph 6B.32 of this condition,
- (b) Appendix 2 of this condition in order to amend Project Details in respect of:
 - (i) Funded Pre-construction Works and/or Funded Construction Works to reflect the determination of a TII AVAE in accordance with paragraph 6B.18 of this condition or the revocation of such a determination in accordance with paragraph 6B.20 of this condition; and/or
 - (ii) Funded Construction Works to reflect the determination of a TII OMAE in accordance with paragraph 6B.26 of this condition or the revocation of such a determination in accordance with paragraph 6B.27 of this condition.

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

- (a) given notice to interested parties that it proposes to issues a direction under paragraph 6B.34 of this condition:
 - (i) specifying the date on which it proposes that the direction should take effect;

- (ii) specifying, where appropriate, any TII Allowance Adjustment that has been determined in accordance with Part A of this condition and the details determined in respect of Further Works in accordance with Part E of this condition;
 - (iii) specifying the time (which must not be less than a period of 28 days within which representations concerning the proposed direction may be made); and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

Part I: Interpretation

6B.36 Definitions used in this condition and defined in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

Appendix 1 to Special Condition 6B

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

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

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

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

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

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

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

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

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

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

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Appendix 2 to Special Condition 6B

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

Anglo Scottish Incremental

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

- Funded Pre-construction Works
- Funded Construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

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

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| | | <p>diagrams, physical layouts and site proposals have been completed.</p> <p>Complete optioneering report to determine optimum mix between Series/Shunt compensation and determine optimum location for proposed compensation.</p> <p>Complete specialist studies in support of installation of series compensation (i.e. SSR studies).</p> <p>Reconductoring of Harker-Hutton-Quernmore Tee– provide evidence to show that:</p> <p>Pre-construction works have commenced:</p> | <p>during 2012/13.</p> <p>Shunt compensation – provide evidence to show that:</p> <p>Pre-construction initial design works and site studies have been completed during 2010/11: provide evidence that single line diagrams, physical layouts and site proposals have been completed.</p> <p>Reconductoring of Harker-Hutton-Quernmore Tee– provide evidence to show that:</p> <p>All pre-construction works have completed during 2011/12: Provide evidence of project design, route ID, site</p> | <p>studies have been completed</p> <ul style="list-style-type: none"> • Single line diagrams and site layout diagrams • Confirmation that all consents are place • Confirmation that civil design works are complete. |
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| | | Provide evidence to show that design works are progressing and that that a detailed programme for obtaining planning consents is available. | studies and environmental assessments. Confirm that planning consents are achieved. | |
| For Funded Construction Works | | | <p>Shunt compensation– provide evidence to show that:</p> <p><i>At Harker substation:</i></p> <p>All pre-construction works have progressed in accordance with detailed programme.</p> <p>Plant layout drawings, single line diagrams and outline civil design works are complete.</p> <p>Post-fault switching scheme is being developed in conjunction with</p> | <p>Shunt compensation– provide evidence to show that:</p> <p><i>At Harker substation:</i></p> <p>Detailed design is complete and construction drawings have been issued.</p> <p>Final design of the post fault switching scheme has been confirmed.</p> <p>A detailed construction programme for the installation of MSCs in 2013/14 is complete.</p> <p>Construction</p> |

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

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

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Central Wales

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

- Funded Pre-construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

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

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| | | <p>Evidence that planning consultations with relevant parties have commenced.</p> <p>Provide evidence that route surveys are underway and that EIA surveys are progressing towards completion.</p> <p>Central Wales- Ironbridge 400kV circuit only – provide a complete optioneering report.</p> | <p>Central Wales- Ironbridge 400kV circuit– provide evidence to show that:</p> <p>Evidence that the initial planning consultations with relevant parties have been completed.</p> <p>Planning application being prepared for submission to IPC.</p> <p>Project design is being progressed in line with completion of pre-construction works in 2013.</p> | <p>evidence to show that:</p> <p>Pre-construction work has progressed in line with programme.</p> |
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Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
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East Anglia

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

- Funded Pre-construction Works
- Funded Construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

| Descripti on of project milestone s | Delivere d by 1 April 2010 | Delivered by 1 April 2011 | Delivered by 1 April 2012 | Delivered by 1 April 2013 |
|------------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| For Funded Pre- constructi on Works | | Reconductoring of Walpole- Norwich- Bramford 400kV circuit: Norwich- Walpole reconductoring – provide evidence to show that: Pre-construction | Reconductoring of Walpole-Norwich- Bramford 400kV circuit: Norwich- Bramfordreconducto ring – provide evidence to show that: Reconductoring pre- construction works have been completed. Provide evidence of completion of design | Bramford substation –provide evidence to show that: All pre-construction work has been completed. Bramford-Twinstead tee 400kV circuit - |

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| | | <p>works are complete: Provide evidence to show that design works are completed and that planning consents are achieved.</p> <p>Bramford substation – provide evidence to show that:</p> <p>Plant layout drawings, single line diagrams and civil design works are complete. Provide evidence of 300kV GIS order.</p> <p>Quadrature boosters (QBs) – provide evidence to show that:</p> <p>Optioneering report has been completed for the development of QBs at either Walpole/Norwich Bramford.</p> <p>A detailed</p> | <p>works and confirm status of required consents.</p> <p>Bramford substation – provide evidence to show that:</p> <p>Planning consents have been submitted and IP3 has been achieved/completed.</p> <p>Quadrature boosters (QBs) – provide evidence to show that:</p> <p>Pre-construction works are progressing in accordance with detailed programme, (design, single line diagram, site and routing studies, EIA, planning and IPC consents and land purchase/wayleaves) to begin construction works in 2016/17).</p> <p>Bramford-Twinstead tee 400kV circuit – provide evidence to show that:</p> <p>Evidence that initial planning consultations</p> | <p>provide evidence to show that:</p> <p>Pre-construction work has progressed in line with programme.</p> |
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| | | <p>programme has been produced for delivery of QBs in 2016/17.</p> <p>Pre-construction works have progressed in accordance with detailed programme, (design, single line diagram, site and routing studies, EIA, planning and IPC consents and land purchase/wayleaves) to begin construction works in 2016/17.</p> <p>Bramford-Twinstead tee 400kv circuit – provide evidence to show that:</p> <p>An optioneering report has been completed.</p> <p>A detailed programme for both elements of works has been produced by 1 April 2011.</p> | <p>with relevant parties have been completed.</p> <p>Planning application being prepared for submission to IPC.</p> <p>Project design is being progressed in line with completion in 2016/17.</p> | |
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| | | <p>Evidence that planning consultations with relevant parties have commenced.</p> <p>Provide evidence that route surveys are underway and that EIA surveys are progressing towards completion.</p> | | |
| For Funded Construction Works | <p>Bramford substation – provide evidence to show that:</p> <p>Civil works are underway at substation site from 31 March 2010.</p> | <p>Norwich-Walpole reductoring – provide evidence to show that:</p> <p>Works have started as programmed.</p> <p>Bramford substation – provide evidence to show that:</p> <p>Civil works have progressed at substation site and that works have started on substation structures.</p> | <p>Norwich-Walpole reductoring – provide evidence to show that:</p> <p>Reconductoring of circuits is completed in 2011/12. Confirm that works have finished as programmed.</p> <p>Norwich-Bramfordreductoring – provide evidence to show that:</p> <p>Reconductoring has started by showing that plant has been ordered.</p> | <p>Reconductoring of Walpole-Norwich-Bramford 400kV circuit: Norwich-Bramfordreductoring – provide evidence to show that construction work has commenced in line with re-conductoring being completed by 31 March 2014.</p> <p>This will include:</p> <ul style="list-style-type: none"> • Evidence that pre-access works including temporary roadways and scaffolds are in place • Tower steelwork replacement has commenced |

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

3. Forecast output measures

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

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| | | | rating of 3070MVA by 1 April 2014. |
| New Bramford 400kV substation | Not complete. | Not complete. | A new 400kV substation should be commissioned at Bramford by 1 April 2017. |

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Eastern HVDC link

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

- Funded Pre-construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

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

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

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

- Funded Pre-construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

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

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

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London

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

- Funded Pre-construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

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

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| | | | | |
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| | | routing studies, EIA, planning and consents and land purchase/wayleaves) in line with programme to begin construction works in 2012). | | |
|--|--|---------------------------------------------------------------------------------------------------------------------------------------|--|--|

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North Wales

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

- Funded Pre-construction Works
- Funded Construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

| Description of project milestones | Delivered by 1 April 2010 | Delivered by 1 April 2011 | Delivered by 1 April 2012 | Delivered by 1 April 2013 |
|------------------------------------------|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| For Funded Pre-construction Works | | <p>Reconductoring Trawsfynydd to Treuddyn Tee – provide evidence to show that:</p> <p>Confirmation of consent decision; evidence of contract tendering, award and plant ordering are progressing in</p> | <p>For all elements of the project – provide evidence to show that:</p> <p>Planning permission submissions, together with land purchase/easements/wayleaves and environmental impact assessments have been</p> | <p>For all elements of the project – provide evidence to show that:</p> <p>Pre-construction work has progressed in line with individual projects' respective programmes.</p> |

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| | | <p>line with construction commencement in 2011.</p> <p>That consent exemption consultation(s) have been completed.</p> <p>Series compensation – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and siting study. Also provide evidence of single line diagrams and physical layout designs.</p> <p>Pentir, Penisarwaun, Bryncir and Trawsfynydd substations – provide evidence to show:</p> <p>Completion of initial feasibility and study</p> | <p>completed in line with individual projects’ respective programmes.</p> | |
|--|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|--|

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| | | <p>options, stakeholder consultations and siting study.</p> <p>Manweb 132 replacement – provide evidence to show:</p> <p>Completion of initial feasibility and study options. Stakeholder consultations have commenced.</p> <p>New Wylfa-Pentir 400kV circuit – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and routing study.</p> <p>New Wylfa 400kV substation – provide evidence to show:</p> | | |
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| | | <p>Completion of initial feasibility and study options, stakeholder consultations and siting study.</p> <p>Second Pentir-Trawsfynydd 400kV circuit – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations, siting study and cable route study for cable sections crossing Glaslyn estuary.</p> | | |
| For Funded Construction Works | | | | <p>Reconductoring Trawsfynydd to Treuddyn Tee – provide evidence to show that:</p> <p>Site mobilisation, procurement of key materials and commencement of</p> |

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|--|--|--|--|------------------------|
| | | | | steelwork replacement. |
|--|--|--|--|------------------------|

3. Forecast output measures

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

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
National Grid Electricity Transmission plc (company number 2366977): Special Conditions Consolidated – 01September 2017

South West

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

- Funded Pre-construction Works.

1. Capital expenditure allowances

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

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
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2. Key project milestones

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

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
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Western HVDC link

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

- Funded Pre-construction Works
- Funded Construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

| Description of project milestones | Delivered by 1 April 2010 | Delivered by 1 April 2011 | Delivered by 1 April 2012 | Delivered by 1 April 2013 |
|------------------------------------------|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| For Funded Pre-construction Works | | <p>Deeside 400kV substation replacement – provide evidence to show that:</p> <p>Consents application process is underway.</p> <p>Detailed design</p> | <p>HVDC link – provide evidence to show that:</p> <p>Pre-contract release design is completed.</p> <p>Contracts are drawn up over the year with suppliers by 1 April 2012.</p> | |

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| | | | | |
|--|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| | | <p>process is underway; a detailed construction plan has been drawn up and relevant environmental surveys have been commissioned.</p> <p>HVDC link – provide evidence to show that:</p> <p>Completion of network analysis studies and resulting decision on converter, cable route and landing points.</p> <p>Physical layout drawings and final decision of substation locations have been completed.</p> <p>Equipment standards and specifications for design choice have been</p> | <p>Land access/acquisition /options and/or agreements for converter station have been completed.</p> <p>Pre-application consultation and environmental assessment works complete.</p> <p>Planning application submission to appropriate bodies complete.</p> | |
|--|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
National Grid Electricity Transmission plc (company number 2366977): Special Conditions Consolidated – 01September 2017

| | | | | |
|-------------------------------|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p>completed.</p> <p>Sea-bed survey complete.</p> <p>Consultations and EIAs are progressing in accordance with programme.</p> <p>Optimised tender design for firm price has been completed.</p> | | |
| For Funded Construction Works | | <p>Deeside 400kV substation replacement – provide evidence to show that:</p> <p>Plant/material ordering has occurred in line with the planned construction start date in 2011/12.</p> | <p>Deeside 400kV substation replacement– provide evidence to show that:</p> <p>Project has progressed in accordance with the detailed programme.</p> | <p>Deeside 400kV substation replacement– provide evidence to show that:</p> <p>Construction work has progressed in line with the detailed programme.</p> <p>This will include:</p> <ul style="list-style-type: none"> • Construction has commenced on the GIS building • Installation of the GIS switchboard has commenced • Civils work to allow the installation of transformers • Construction of associated overhead |

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National Grid Electricity Transmission plc (company number 2366977): Special Conditions Consolidated – 01 September 2017

| | | | | |
|--|--|--|--|----------------------------|
| | | | | line towers has commenced. |
|--|--|--|--|----------------------------|

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
National Grid Electricity Transmission plc (company number 2366977): Special Conditions Consolidated – 01September 2017

3. Forecast output measures

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

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
 National Grid Electricity Transmission plc (company number 2366977): Special Conditions Consolidated – 01September 2017

Wylfa-Pembroke HVDC link

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

- Funded Pre-construction Works.

1. Capital expenditure allowances

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

2. Key project milestones

| Description of project milestones | Delivered by 1 April 2010 | Delivered by 1 April 2011 | Delivered by 1 April 2012 | Delivered by 1 April 2013 |
|------------------------------------------|----------------------------------|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| For Funded Pre-construction Works | | | Wylfa-Pembroke HVDC link – provide evidence to show that: Preliminary pre-construction works including single line diagrams, high level programmes, on-shore layout diagrams and | Wylfa-Pembroke HVDC link – provide evidence to show that: Pre-construction work has progressed in line with programme. |

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
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| | | | | |
|--|--|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| | | | potential off-shore routes are available. Project risk register, installation considerations, consultation strategy and environmental impact assessment strategy have been developed. | |
|--|--|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
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Special Condition 6C. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner

Introduction

- 6C.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the licensee's actual TO Totex expenditure, in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- 6C.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:
- (a) the value of the term MOD as calculated for Relevant Year t for the purposes of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue; and
 - (b) appropriate adjustments will be made to the licensee's Regulatory Asset Value (RAV) balance,
- that reflect the licensee's performance under the Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.
- 6C.3 This condition should be read and construed in conjunction with, Special Conditions 5A (Governance of ET1 Price Control Financial Instruments) and 5B.

Part A: TO Totex Incentive Mechanism applicable to the licensee

- 6C.4 The TO Totex Incentive Mechanism ensures that the licensee bears an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Relevant Year, between:
- (a) the licensee's allowed TO Totex expenditure; and
 - (b) the licensee's actual TO Totex expenditure.
- 6C.5 The 'appropriate share' referred to in paragraph 6C.4 is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).
- 6C.6 TO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the ET1 Price Control Financial Model. The Totex Capitalisation Rate set down against the licensee's name in the table at Appendix 1 to this condition is a fixed value, contained in the Price Control Financial Model, that is used in the calculation of TO Totex Incentive Mechanism adjustments.
- 6C.7 This condition provides for the determination and direction of revisions to the five PCFM Variable Values that relate to the licensee's actual TO Totex expenditure. PCFM Variable Values which relate to the licensee's allowed TO Totex expenditure are

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specified in other special conditions of the licence, and are scheduled in the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

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

6C.8 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) actual load related capex expenditure (ALC values);
- (b) actual asset replacement capex expenditure (ARC values);
- (c) actual other capex expenditure (AOC values);
- (d) actual controllable opex (ACO values); and
- (e) actual non-operational capex (ANC values).

6C.9 Subject to paragraph 6C.10, the Authority will, by 30 November in each Relevant Year t-1

- (a) determine revised ALC, ARC, AOC, ACO and ANC values for Relevant Year t-2; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Relevant Years to which they relate,

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

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

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

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

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

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

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

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

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

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

6C.17 If, subject to paragraph 6C.10 of this condition, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised ALC, ARC, AOC, ACO and ANC values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 5B.12 of Special Condition 5B and, in any case, before directing a value for MODt under that paragraph.

Part D: Interpretation

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

APPENDIX 1: TOTEX INCENTIVE STRENGTH AND TOTEX CAPITALISATION RATES

(see Part A of this condition)

| Licensee | Totex Incentive Strength Rate | Totex Capitalisation Rate |
|--------------------------------------------|--------------------------------------|----------------------------------|
| National Grid Electricity Transmission plc | 46.89% | 85% |

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Special Condition 6D. Specified financial adjustments – Transmission Owner

Introduction

6D.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
- (b) the Relevant Years to which the revised values referred to in sub-paragraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6D.2 The application of the mechanisms set out in this condition ensures that as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year *t* for the purposes of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an appropriate adjustment to the licensee's Base Transmission Revenue in a manner that appropriately reflects the licensee's:

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

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

6D.3 This condition should be read and construed in conjunction with Special Conditions 5A (Governance of ET1 Price Control Financial Instruments) and 5B.

Part A: TO Revenue allowances for Pension Scheme Established Deficits, Pension Scheme administration and the Pension Protection Fund levy

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

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

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

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
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- (a) a valuation of each pension scheme sponsored by the licensee;
- (b) a review of the valuations referred to in sub-paragraph (a) and of the reasonableness of the licensee's Pension Scheme Established Deficit funding levels; and
- (c) a review of the level of payments actually made by the licensee to its pension scheme,

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

- 6D.6 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6D.5 of this condition is Relevant Year 2014/15.
- 6D.7 Subject to paragraph 6D.8 of this condition, the Authority will, by 30 November in each Relevant Year t-1, determine whether any APFE values should be revised as a result of a review of the licensee's reported levels of:
- (a) Pension Scheme Administration costs; and/or
 - (b) Pension Protection Fund levy costs

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

- 6D.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6D.7 of this condition is Relevant Year 2014/15.
- 6D.9 If the Authority determines under paragraph 6D.5 or 6D.7 of this condition that, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook, any EDE values or APFE values are to be revised, it will by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised EDE values and APFE values that have been determined and the Relevant Years to which they relate.
- 6D.10 Where the Authority directs any revised EDE values or APFE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term MOD will be retrospectively affected.

Part B: TO tax liability allowances

- 6D.11 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) TO tax liability revenue allowance adjustments in respect of tax trigger event (TTE values); and
 - (b) TO tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (TGIE values).

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

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- 6D.13 Subject to paragraph 6D.14 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.
- 6D.14 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 6D.13 of this condition is Relevant Year 2013/14.
- 6D.15 Subject to paragraph 6D.16 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any TGIE values should be revised as a result of a review of:
- (a) the licensee's actual level of gearing; and
 - (b) the level of debt interest charges actually incurred by the licensee,
- in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.
- 6D.16 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6D.15 of this condition is Relevant Year 2014/15.
- 6D.17 If the Authority determines under paragraph 6D.13 or 6D.15 of this condition that, in accordance with the methodologies contained in chapter 4 of the ET1 Price Control Financial Handbook, any TTE values or TGIE values are to be revised, it will by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TTE values and TGIE values that have been determined and the Relevant Years to which they relate.
- 6D.18 Where the Authority directs any revised TTE values or TGIE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt will not have any retrospective effect on a previously directed value of the term MOD.

Part C: Allowed TO percentage cost of corporate debt

- 6D.19 This Part C provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed TO percentage cost of corporate debt (CDE values).
- 6D.20 Subject to paragraph 6D.22 of this condition, the Authority will by 30 November in each Relevant Year t-1:
- (a) determine a revised CDE value for Relevant Year t and each subsequent Relevant Year in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook; and
 - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised CDE values that have been determined and the Relevant Years to which they relate.
- 6D.21 The Authority may also revise the CDE value for a Relevant Year earlier than Relevant Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.

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- 6D.22 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 6D.20 of this condition is Relevant Year 2013/14.
- 6D.23 Where the Authority directs any revised CDE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt will not have any retrospective effect on a previously directed value of the term MOD.

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

- 6D.24 Subject to, and in accordance with, the provisions of Parts A, B and C of this condition, revised EDE, APFE, TTE, TGIE and CDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 6D.25 Before issuing any directions under paragraph 6D.24 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.
- 6D.26 The notice referred to in paragraph 6D.25 of this condition will:
- (a) state that any revised EDE and APFE values have been determined in accordance with Part A of this condition;
 - (b) state that any revised TTE and TGIE values have been determined in accordance with Part B of this condition;
 - (c) state that any revised CDE values have been determined in accordance with Part C of this condition; and
 - (d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised EDE, APFE, TTE, TGIE or CDE values.
- 6D.27 The Authority will have due regard to any representations duly received under paragraph 6D.26 of this condition, and give reasons for its decisions in relation to them.
- 6D.28 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised EDE, APFE, TTE, TGIE and CDE values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 5B.12 of Special Condition 5B, and in any case, before directing a value for MOD_t under that paragraph.

Part E: Interpretation

- 6D.29 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretations) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

Special Condition 6E. The Innovation Roll-out Mechanism

Introduction

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

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

- 6E.6 The Roll-out by the licensee of a Proven Innovation will allow the licensee to receive additional funding within the Price Control Period but only if the Authority is satisfied that the Roll-out:
- (a) will deliver Carbon Benefits or any wider environmental benefits;
 - (b) will provide long-term value for money for electricity consumers;
 - (c) will not enable the licensee to receive commercial benefits from the Roll-out within the remainder of the Price Control Period (for instance, where the Roll-out of a Proven Innovation will lead to cost savings (including benefits from

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other incentives) equal to or greater than its implementation costs within the Price Control Period); and

- (d) will not be used to fund any of the Ordinary Business Arrangements of the licensee.

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

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

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

6E.9 A relevant adjustment is an adjustment:

- (a) which the licensee believes will enable it to recover Innovation Roll-out Costs associated with a single Proven Innovation that would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Innovation Roll-out Costs that have not yet been incurred.

Part C: Application windows for relevant adjustment proposals

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

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

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

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

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

- (a) state any statutory obligations or any requirements of this licence to which the notice relates;
- (b) describe the Proven Innovation that the licensee proposes to Roll-out;
- (c) propose the amount of the relevant adjustment and set out, by reference to the Innovation Roll-out Costs, the basis on which the licensee has calculated the relevant adjustment;

- (d) demonstrate that the costs to be recovered by the relevant adjustment will be a material amount for the purposes of paragraph 6E.8 of this condition;
- (e) demonstrate how each of the criteria set out in Part A of this condition above will be fulfilled by the additional funding sought;
- (f) propose relevant outputs or other end products against which the Roll-out will be assessed; and
- (g) state the date from which it is proposed that the relevant adjustment will have effect (“the adjustment date”).

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

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

Part E: Authority’s determination of a relevant adjustment

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

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

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

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

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

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

- (a) determine that the IRM value for the applicable Relevant Year is to be revised to reflect any changes as a result of determinations made by the Authority under Part E of this condition; and

- (b) issue a direction, in accordance with the provisions of Part G of this condition, specifying any revised IRM values determined under sub-paragraph (a) of this paragraph and the Relevant Years to which they relate.

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

- 6E.18 Any revised IRM values determined by the Authority in accordance with Part F of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 6E.19 Before issuing any directions under paragraph 6E.18 of this condition, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 6E.20 The notice referred to in paragraph 6E.19 of this condition will:
 - (a) state that any revised IRM values have been determined in accordance with Part F of this condition; and
 - (b) specify the period (which will not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised IRM values.
- 6E.21 The Authority will have due regard to any representations duly received in response to this notice under paragraph 6E.20 of this condition, and give reasons for its decisions in relation to them.
- 6E.22 Where the Authority directs any revised IRM values relating to Relevant Years which are earlier than Relevant Year t, the effect of using those revised IRM values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it will not have any retrospective effect on a previously directed value of the term MOD.
- 6E.23 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised IRM values by 30 November, then no revised IRM values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised IRM values in respect of the next Annual Iteration Process.

APPENDIX 1: Totex Incentive Strength Rate

| Licensee | Totex Incentive Strength Rate (%) |
|--------------------------------------------|-----------------------------------|
| National Grid Electricity Transmission plc | 46.89% |

APPENDIX 2: Materiality threshold amount

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
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| Licensee | £m (2009/10 values) |
|--------------------------------------------|----------------------------|
| National Grid Electricity Transmission plc | 1634.580 |

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

Introduction

6F.1 The purposes of this condition are:

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

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

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

- (a) the specification of the baseline Generation Connections and the associated Allowed Expenditure;
- (b) the determination in Relevant Year t-1 of one or more revisions to GCE values to reflect the Generation Connections the licensee delivers in Relevant Year t-2;
- (c) the determination of the licensee's Allowed Expenditure for Generation Connections the licensee forecast it will deliver in the first two years of the next price control period starting on 1 April 2021; and
- (d) the direction of revised GCE values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
 - (i) reflects Allowed Expenditure amounts determined under Part C of this condition; and
 - (ii) takes account of Allowed Expenditure on Generation Connections for the purposes of the Totex Incentive Mechanism Adjustment.

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

Part A: Baseline Generation Connections and Allowed Expenditure

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

Table 1: Baseline Generation Connections and Allowed Expenditure

| | Relevant Year | | | | | | | |
|---------------------------|---------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| BGCO (MW) | 504.0 | 1597.0 | 3264.0 | 3553.0 | 1540.0 | 3797.0 | 5649.5 | 13819.0 |
| BLOHL (circuit km) | 5.4 | 0.0 | 0.0 | 100.0 | 0.0 | 70.0 | 40.0 | 0.0 |
| BGCE (£m) | 130.524 | 185.228 | 184.112 | 220.710 | 117.364 | 95.965 | 42.494 | 20.662 |

6F.6 The baseline expenditure set out in Table 1 in this condition has been reflected in:

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

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

Part B: Allowed Expenditure for Generation Connections

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

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

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

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

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

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

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

where:

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

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

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

where:

| | |
|---------------------|----------------------------------------------------------------------------------------------------------------|
| n | has the same meaning as in paragraph 6F.8 of this condition. |
| AGCO _{t-2} | means the actual Relevant Generation Capacity as at 31 March of Relevant Year t-2. |
| BGCO _{t-2} | means the baseline Relevant Generation Capacity for Relevant Year t-2 as set out in Table 1 of this condition. |

| | |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| $ALOHL_{t-2}$ | means the actual length of overhead line in circuit kilometres commissioned as part of the Generation Connections Delivered in Relevant Year t-2. |
| $BLOHL_{t-2}$ | means the baseline length of overhead line in circuit kilometres in Relevant Year t-2 as set out in Table 1 of this condition. |
| m | indexes each underground cable type which is specified both by its construction and by its section length as set out in Table 2 in this condition (i.e. m = 1 to 15). |
| x | means the number of sections of underground cable Delivered (i.e. x = 0 to N). |
| $ASLCBL_{x,m,t-2}$ | means the actual underground cabling section x of type m in circuit kilometres commissioned as part of the Generation Connections Delivered in Relevant Year t-2. |
| $COUCA_m$ | means the cost per section length for each underground cable type m as set out in Table 2 of this condition. |
| RPE_n | means the Real Price Effects adjustment factor for year n as set out in Table 3 of this condition. |
| $WFG_{t-2,n}$ | means the weighting factor for expenditure in year n for outputs Delivered in Relevant Year t-2 as set out in Table 4 of this condition. |

Table 2: Unit cost allowances for Underground Cabling

| m | Underground cable type | x, section length in route km | $COUCA_m$ £m per circuit kilometre (2009/10 prices) |
|---|-----------------------------------------|-------------------------------|-----------------------------------------------------|
| 1 | 1 core per phase $\leq 2500\text{mm}^2$ | $x < 3$ | 6.3 |
| 2 | | $3 \leq x < 15$ | 5.2 |
| 3 | | $x \geq 15$ | 5.0 |
| 4 | 1 core per phase $>2500\text{mm}^2$ | $x < 3$ | 6.6 |
| 5 | | $3 \leq x < 15$ | 5.5 |
| 6 | | $x \geq 15$ | 5.3 |
| 7 | 2 core per phase $\leq 2500\text{mm}^2$ | $x < 3$ | 10.5 |
| 8 | | $3 \leq x < 15$ | 8.9 |
| 9 | | $x \geq 15$ | 8.7 |

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| m | Underground cable type | x, section length in route km | COUCA_m £m per circuit kilometre (2009/10 prices) |
|----------|-----------------------------------------|--------------------------------------|--------------------------------------------------------------------|
| 10 | 2 core per phase > 2500mm ² | x < 3 | 11.1 |
| 11 | | 3 ≤ x < 15 | 9.5 |
| 12 | | x ≥ 15 | 9.3 |
| 13 | 3 cores per phase ≤ 2500mm ² | x < 3 | 14.7 |
| 14 | | 3 ≤ x < 15 | 12.6 |
| 15 | | x ≥ 15 | 12.4 |

Table 3: Real price effect adjustment factors

| Year n | | | | | | | |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| 1.032 | 1.040 | 1.049 | 1.057 | 1.065 | 1.074 | 1.082 | 1.091 |

Table 4: Weighting factors for Generation Connections

| Relevant year t-2 | Expenditure year n | | | | | | | |
|--------------------------|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| 2014 | 1.00 | | | | | | | |
| 2015 | 0.47 | 0.53 | | | | | | |
| 2016 | 0.47 | 0.32 | 0.21 | | | | | |
| 2017 | 0.16 | 0.315 | 0.315 | 0.21 | | | | |
| 2018 | | 0.16 | 0.315 | 0.315 | 0.21 | | | |
| 2019 | | | 0.16 | 0.315 | 0.315 | 0.21 | | |
| 2020 | | | | 0.16 | 0.315 | 0.315 | 0.21 | |
| 2021 | | | | | 0.16 | 0.315 | 0.315 | 0.21 |
| 2022 | | | | | | 0.16 | 0.315 | 0.315 |
| 2023 | | | | | | | 0.16 | 0.315 |

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

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

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

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

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

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

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

where:

| | |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| n | has the same meaning as in paragraph 6F.8 of this condition. |
| d | means the Relevant Year in which the licensee forecasts it will Deliver the Generation Connections. |
| m | has the same meaning as in paragraph 6F.9 of this condition. |
| x | has the same meaning as in paragraph 6F.9 of this condition. |
| $FGCO_d$ | means the licensee's forecast of new Generation Connections that are backed with a signed Bilateral Connection Agreement to deliver the connection capacity in year d . |
| $FOHL_d$ | means the forecast length of overhead line in circuit kilometres the licensee forecasts to be required as part of delivering $FGCO_d$ in year d . |
| $FCBL_{x,m,d}$ | means the underground cabling section x of type m in circuit kilometres the licensee forecasts to be required as part of delivering $FGCO_d$ in year d . |
| $COUCA_m$ | has the same meaning as paragraph 6F.9 of this condition. |
| RPE_n | has the same meaning as paragraph 6F.9 of this condition. |
| $WFG_{d,n}$ | has the same meaning as paragraph 6F.9 of this condition, except d replaces $t-2$. |

Part C: Determination of revisions to GCE values

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- 6F.11 The Authority will, by 30 November in each Relevant Year $t-1$, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part D of this condition, specifying the revised GCE values for all years of the Price Control Period.
- 6F.12 The GCE values directed by the Authority will be deemed to be set out in the format of Table 6 in this condition showing the total amounts of Allowed Expenditure for Generation Connections for each Relevant Year n of the Price Control Period after any modifications calculated in accordance with the formulae set out in Part B of this condition.

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

| Relevant Year n | Relevant Year t | | | | | | | |
|-----------------|-----------------|---------|---------|---------|---------|---------|---------|---------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| 2014 | | | | | | | | |
| 2015 | | | | | | | | |
| 2016 | | | | | | | | |
| 2017 | | | | | | | | |
| 2018 | | | | | | | | |
| 2019 | | | | | | | | |
| 2020 | | | | | | | | |
| 2021 | | | | | | | | |
| Total | | | | | | | | |

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

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

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

6F.14 A direction issued by the Authority under paragraph 6F.11 of this condition is of no effect unless the Authority has first:

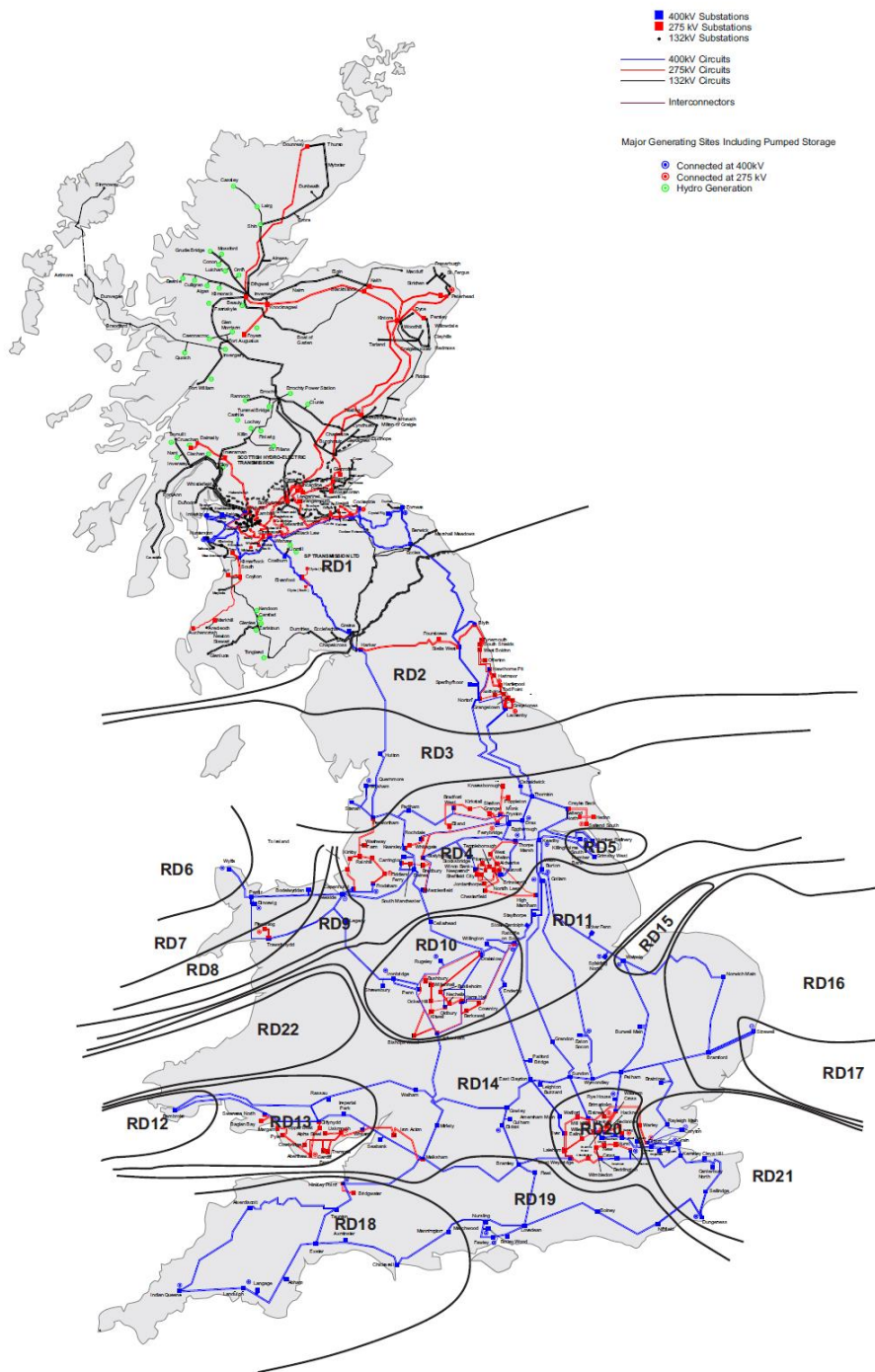
- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6F.11 of this condition:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) stating, where appropriate, that any GCE values have been determined in accordance with Part B of this condition;
 - (iii) specifying the time (which must not be less than a period of 14 days) within which representations concerning the proposed direction may be made; and

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- (b) considered any representations in response to the notice that are duly made and not withdrawn.
- 6F.15 Where the Authority directs any revised GCE values for earlier Relevant Years under paragraph 6F.11 of this condition, the effect of using those revised GCE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.
- 6F.16 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised GCE values by 30 November, then no revised GCE values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised GCE values in respect of the next Annual Iteration Process.

APPENDIX 1: Map of defined Zones 2 and 22

Figure 11: Existing Transmission System



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

Introduction

6G.1 The purpose of this condition is:

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

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

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

- (a) the specification of EPI Outputs and any Allowed Expenditure associated with those Outputs;
- (b) the determination and direction by the Authority of revised EPIE values to reflect changes to the Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the MOD term as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
 - (i) reflects approved changes to Allowed Expenditure for EPI Outputs specified in this condition; and
 - (ii) takes account of approved changes to Allowed Expenditure for EPI Outputs specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

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

Part A: Mitigating Pre-existing Infrastructure Policy

- 6G.5 Before making a request to the Authority to specify EPI Outputs under the provisions of Part C of this condition the licensee must submit to the Authority a Mitigating Pre-existing Infrastructure Policy (“Policy”).
- 6G.6 The Policy required by paragraph 6G.5 of this condition must include:
- (a) the licensee’s objectives for delivering EPI Outputs, with reference to how these have been informed by the licensee’s statutory duties and stakeholders’ views on the licensee’s role in delivering EPI Outputs;
 - (b) details of how the licensee will work with other Transmission Licensees, relevant national and statutory bodies, and other interested stakeholders to maximise the benefits to consumers of EPI Outputs taken forward during the Price Control Period;
 - (c) a proposed methodology to identify opportunities for benefit-maximizing EPI Outputs on the National Electricity Transmission System;
 - (d) proposed criteria to evaluate and prioritise EPI Outputs including, but not limited to, visual amenity benefits, value for money, and other environmental impacts;
 - (e) a description of the potential measures by which the licensee could deliver EPI Outputs to mitigate the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas; and
 - (f) an explanation of how the licensee will review and revise the Policy so that it remains at all times consistent with industry best practice.
- 6G.7 Unless the Authority otherwise directs within two months of the date of submission of the Policy by the licensee in accordance with paragraph 6G.6 of this condition, the licensee must use reasonable endeavours to apply the methodology set out in that Policy.
- 6G.8 Before revising the methodology set out in the Policy, the licensee must submit a copy of the proposed revisions to the Authority.
- 6G.9 Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 6G.8 of this condition the revisions will take effect and the licensee must use reasonable endeavours to apply the methodology set out in the Policy as revised.

Part B: Assessment of Allowed Expenditure for EPI Outputs

- 6G.10 During the Price Control Period the licensee may submit a request to the Authority to determine on the Allowed Expenditure for the licensee to develop and deliver a EPI Output.
- 6G.11 All EPI Outputs will be deemed to be specified in Table 1 of this condition following a determination by the Authority on the Allowed Expenditure for those outputs in accordance with the provisions of Part B of this condition.

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Table 1: EPI Outputs

| EPI Output description | Designated Area | Delivery date |
|-------------------------------|------------------------|----------------------|
| | | |
| | | |
| | | |
| | | |
| | | |

(i) Licensee’s notice to the Authority

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

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

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

(ii) Determination by the Authority

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

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

(iii) Revocation

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

Part C: Modification to specify EPI Outputs and Allowed Expenditure

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

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

6G.18 A direction issued by the Authority under paragraph 6G.16 of this condition is of no effect unless the Authority has first:

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

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

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

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

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

| £m (2009/10 prices) | Relevant Year t | | | | | | | |
|---------------------------|-----------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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

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

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

6G.22 A direction issued by the Authority under paragraph 6G.19 of this condition is of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6G.19 of this condition:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) stating, where appropriate, that any EPIE values have been determined in accordance with Part B of this condition; and
 - (iii) specifying the time (which must not be less than a period of 14 days) within which representations concerning the proposed direction may be made.
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

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

6G.24 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised EPIE values by 30 November, then no revised EPIE values will be

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used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised EPIE values in respect of the next Annual Iteration Process.

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

Introduction

6H.1 The purpose of this condition is:

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

6H.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term MOD_t as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an appropriate adjustment to the licensee’s Base Transmission Revenue in a manner that takes account of Allowed Expenditure levels in relation to the uncertain cost category specified in paragraph 6H.1 of this condition, determined under Part A of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapters 6 and 7 of the ET1 Price Control Financial Handbook.

6H.3 This condition should be read and construed in conjunction with Special Condition 5A (Governance of ET1 Price Control Financial Instruments) and Special Condition 5B.

Part A: Proposal and determination of relevant adjustments

6H.4 This Part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

Proposal of relevant adjustments

6H.5 Subject to paragraph 6H.8 of this condition, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to Allowed Expenditure:

- (a) is based on information about actual or forecast levels of efficient expenditure requirements for an uncertain cost category that was not available when the licensee's Opening Base Revenue Allowance was derived;
- (b) takes account of any relevant adjustments previously determined under this condition;
- (c) in aggregate constitutes a material amount within the meaning of paragraph 6H.6 of this condition;
- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to Allowed Expenditure which cannot be made under the provisions of any other Special Condition of this licence.

6H.6 A material amount is an amount of change to Allowed Expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2 of this condition.

6H.7 A proposal made under paragraph 6H.5 of this condition must include statements setting out:

- (a) the uncertain cost category to which the proposal relates;
- (b) the changes to the licensee's Allowed Expenditure levels that are proposed and the Relevant Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's Allowed Expenditure levels referred to in sub-paragraph (b) of this paragraph.

Application windows for relevant adjustment proposals

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

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

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

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

Authority's power to determine relevant adjustments

6H.11 Where a proposal has been duly made under paragraph 6H.5 of this condition, the Authority may, within four months after the close of the relevant application window,

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determine any relevant adjustments that are to be made to the licensee's Allowed Expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate.

- 6H.12 In determining any relevant adjustment under paragraph 6H.11 of this condition, the Authority will:
- (a) consult with the licensee and other interested parties;
 - (b) have particular regard to the purposes of this condition; and
 - (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.
- 6H.13 A determination under paragraph 6H.11 of this condition may confirm, reject, or vary the proposed relevant adjustment.
- 6H.14 Without limiting the general effect of paragraph 6H.13 of this condition, a determination by the Authority of a relevant adjustment may specify changes to Allowed Expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.
- 6H.15 The Authority will notify the licensee of any determination made under paragraph 6H.11 of this condition within 14 days of making the determination concerned.
- 6H.16 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 6H.5 of this condition within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to Allowed Expenditure levels for the licensee for Relevant Years specified in the proposal, will be deemed to have been made.

Part B: Determination of revisions to PCFM Variable Values

- 6H.17 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:
- (a) Enhanced Physical Site Security Costs (IAEPPS values).
- 6H.18 The Authority will determine whether any PCFM Variable Values should be revised for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.
- 6H.19 Determinations under paragraph 6H.18 of this condition are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.
- 6H.20 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year t , the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD_t for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD_t will be retrospectively affected.

Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs

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

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

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

6H.23 The notice referred to in paragraph 6H.22 of this condition will:

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

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

6H.25 If, for any reason, the Authority does not make a direction required under paragraph 6H.21 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraphs 5B.11 to 5B.13 of Special Condition 5B and, in any case, before directing a value for MOD_t under paragraph 5B.12 of that condition.

Part D: Interpretation

6H.26 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretations) are to be read and given effect subject to any further clarification set out in the relevant Regulatory Instructions and Guidance issued by the Authority under Special Condition B15 (Regulatory Instructions and Guidance).

APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 6H.6 of this condition)

| Licensee | Totex Incentive Strength Rate (%) |
|--------------------------------------------|-----------------------------------|
| National Grid Electricity Transmission plc | 46.89 |

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APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 6H.6 of this condition)

| Licensee | £m |
|--------------------------------------------|----------|
| National Grid Electricity Transmission plc | 1634.580 |

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

Introduction

6I.1 The purposes of this condition are:

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

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

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

- (a) the specification of Baseline Wider Works Outputs;
- (b) the approval and specification of Strategic Wider Works Outputs;
- (c) the amendment of Baseline Wider Works Outputs and Strategic Wider Works Outputs in the context of an Output Amendment for changes in system background as set out in Part D of this condition;
- (d) the approval of changes to Allowed Expenditure in respect of Strategic Wider Works Outputs and for the WHVDC Output for particular Relevant Years in the context of a Cost and Output Adjusting Event, as specified in Part B of this condition;
- (e) the determination and direction of revised WWE values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee’s Base Transmission Revenue in a manner that:
 - (i) reflects approved changes to Allowed Expenditure for Strategic Wider Works Outputs and for the WHVDC Output specified in this condition, and

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

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

Part A: Specification of Baseline Wider Works and Strategic Wider Works Outputs

6I.5 Table 1 of this condition sets out details of the Baseline Wider Works Outputs that the licensee is required to Deliver during the Price Control Period and Allowed Expenditure for Delivering those outputs that have been determined at the outset of the Price Control Period.

6I.6 The Allowed Expenditure set out in Table 1 of this condition have been reflected in:

- (a) the licensee's Opening Base Revenue Allowance, set against the licensee's name in Appendix 1 to Special Condition 3A;
- (b) IWW values (defined in Special Condition 6J (Allowed Expenditure for Incremental Wider Works Outputs) contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013 (the Allowed Expenditure for Baseline Wider Works Outputs 1 to 3 in Table 1 of this condition have been reflected in IWW values); and
- (c) WWE values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013 (the Allowed Expenditure for the WHVDC Output specified in Table 1 of this condition have been reflected in WWE values).

6I.7 Table 2 of this condition provides supplementary information on the funding arrangements for the WHVDC Output which the licensee is developing jointly with SP Transmission Ltd. Table 2 of this condition sets out the total Allowed Expenditure determined by the Authority for the project as a whole and for the licensee, including efficient costs determined for the Relevant Years commencing 1 April 2011 and 1 April 2012 as reflected in Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). It also sets out the costs allocation ratio to apply to the share of expenditure that is made by the licensee as set out in Ofgem's 27 July 2012 decision letter on WHVDC funding arrangements ("WHVDC Decision Letter").

Table 1: Baseline Wider Works Outputs

| Output description | Allowed Expenditure £m (2009/10 prices) | | | | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------------------|
| | 2013/1 4 | 2014/1 5 | 2015/1 6 | 2016/1 7 | 2017/1 8 | 2018/1 9 | 2019/2 0 | 2020/2 1 | Total for Price Control Period |
| 1. Series and Shunt Compensation Boundary: B6 Starting transfer capacity: 3,300MW Additional transfer capacity: 1,000MW Delivered transfer capability: 4,300MW Delivery required 2014/15 | 33.841 | 17.743 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 51.584 |
| 2. Harker – Hutton – Quernmore conducting Boundary: B7 Starting transfer capacity: 2,200MW Additional transfer capacity: 1,400MW Delivered transfer capability: 3,700MW Delivery required 2014/15 | 62.227 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 62.227 |

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| Output description | Allowed Expenditure £m (2009/10 prices) | | | | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------------------|
| | 2013/1 4 | 2014/1 5 | 2015/1 6 | 2016/1 7 | 2017/1 8 | 2018/1 9 | 2019/2 0 | 2020/2 1 | Total for Price Control Period |
| 3. Penwortham quadrature boosters Boundary: B7a Starting transfer capacity: 4,900MW Additional transfer capacity: 400MW Delivered transfer capability: 5,300MW Delivery required 2014/15 | 1.358 | 2.972 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.344 |
| 4. Western HVDC Output Boundary: B6 Starting transfer capacity: 2,200MW Additional transfer capacity: 2,250MW (2,400MW short term rating) Delivered transfer capability: 6,550MW (6,700 short-term rating) B7: 2,200 / 2,250 (2,400) / 5,650 (5,800) B7a: 4,900 / 2,250 (2,400) / 7,550 (7,700) | 161.700 | 230.40 0 | 208.900 | 20.100 | 0.0 | 0.0 | 0.0 | 0.0 | 621.100 |

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| Output description | Allowed Expenditure £m (2009/10 prices) | | | | | | | | |
|---------------------------|--------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------------------|
| | 2013/1 4 | 2014/1 5 | 2015/1 6 | 2016/1 7 | 2017/1 8 | 2018/1 9 | 2019/2 0 | 2020/2 1 | Total for Price Control Period |
| Delivery required 2016/17 | | | | | | | | | |

Table 2: Supplementary information in respect of the WHVDC Link

| Allowed Expenditure for WHVDC Link £m (2009/10 prices) | Cost allocation ratio | Prior to Price Control Period | | Price Control Period | | | | | | | | Total |
|-----------------------------------------------------------|-----------------------|-------------------------------|--------------|----------------------|--------------|--------------|-------------|-------------|---------|-------------|-------------|---------------|
| | | 2011/1 2 | 2012/1 3 | 2013/1 4 | 2014/1 5 | 2015/16 | 2016/1 7 | 2017/1 8 | 2018/19 | 2019/2 0 | 2020/2 1 | |
| NGET | 68.5% | 15.5 | 83.0 | 161.7 | 230.4 | 208.9 | 20.1 | 0.0 | 0.0 | 0.0 | 0.0 | 719.7 |
| PROJECT TOTAL | | 22.7 | 121.2 | 236.0 | 336.4 | 305.0 | 29.4 | 0.0 | 0.0 | 0.0 | 0.0 | 1050.7 |

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- 6I.8 During the Price Control Period the licensee can request that the Authority approve Allowed Expenditure for Strategic Wider Works Outputs. These are additional to the Baseline Wider Works Outputs specified in Table 1 of this condition.
- 6I.9 All Strategic Wider Works Outputs will be deemed to be specified in Table 3 of this condition following determination by the Authority in accordance with Part F of this condition.
- 6I.10 Where the licensee undertakes to develop Strategic Wider Works Outputs with another TO, supplementary information in respect of the determination by the Authority on those Strategic Wider Works Outputs will be deemed to be specified in Tables 4 and 5 of this condition. This will include the total Allowed Expenditure for the whole of the Strategic Wider Works Output and for the licensee, as well as the cost allocation methodology for the share of expenditure to be made by the licensee in respect of a particular Strategic Wider Works Output.

Table 3: Strategic Wider Works Outputs

| Output description | Allowed Expenditure £m (2009/10 prices) | | | | | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|---------|---------|---------|---------|---------|-----------|---------|-------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/2020 | 2020/21 | Total |
| Output identifier: Boundary (Sub-boundary): Transfer capability before output: XXXMW Output to be delivered: XXXMW additional thermal/voltage/stability capability Transfer capability after output: XXXMW Delivery required 201X/1X | | | | | | | | | |

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Table 4: Supplementary information for Strategic Wider Works Outputs for which provisions on joint delivery apply

| Allowed Expenditure for output name £m (2009/10 prices) | Cost allocation methodology | Price Control Period | | | | | | | Post Price Control Period | | Total |
|------------------------------------------------------------|-----------------------------|----------------------|---------|---------|---------|---------|---------|---------|---------------------------|---------|-------|
| | | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | |
| NGET share | | | | | | | | | | | |
| TOTAL | | | | | | | | | | | |

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6I.11 The licensee must report annually to the Authority on progress made in Delivering the outputs specified in Tables 1 and 3 of this condition along with information on its actual expenditure incurred in accordance with the RIGs.

Part B: Cost and Output Adjusting Events

6I.12 This Part B (which should be read in conjunction with Part C of this condition) provides for a Cost and Output Adjusting Event (COAE) to have effect in relation to the outputs specified in Table 5 in this Part B.

Table 5: Outputs specified in this condition eligible for COAE

| Output name | Relevant total Allowed Expenditure (£m, 2009/2010 prices) | Joint or licensee only Delivery |
|------------------------------|------------------------------------------------------------------|----------------------------------------|
| WHVDC Baseline Output | £1050.7 | Joint - SP Transmission Ltd |
| | | |

6I.13 For the purposes of this condition, a COAE arises where the Authority is satisfied that:

- (a) a pre-defined exceptional event as defined in paragraph 6I.14 of this condition has occurred that the licensee could not have reasonably foreseen and/or economically or efficiently planned a contingency for;
- (b) the single pre-defined exceptional event has resulted in a change to the scope of construction works required to Deliver the output and will cause expenditure relative to the relevant total Allowed Expenditure specified in Table 5 of this condition to be incurred or saved and that the difference before the application of the Totex Incentive Strength Rate will be no less than:
 - (i) 20% for a Strategic Wider Works Output (in nominal values); or
 - (ii) 10% in the case of the WHVDC Output (in nominal values);
- (c) the difference in expenditure:
 - (i) is expected to be efficiently incurred or saved; and
 - (ii) cannot otherwise be recovered under the revenue allowances provided by this condition or by or under any other provision within this licence;

6I.14 In paragraph 6I.13, “a pre-defined exceptional event” is limited to the following:

- (a) extreme weather events (meaning a worse than 1 in 10 probability for land-based activity, and equivalent provisions for marine-based activity);
- (b) the imposition of additional terms or conditions of any statutory consent, approval or permission (including but not limited to planning consent); or
- (c) unforeseen ground or sea-bed conditions.

6I.15 For the purposes of paragraph 6I.14(b) of this condition, the Authority will take into account any additional considerations provided in the WHVDC Decision Letter or that may be identified in the Authority's determination on a particular Strategic Wider Works Output as to the nature of expenditure to be taken into account by the Authority in its consideration of whether a COAE has arisen.

6I.16 In paragraph 6I.13 of this condition, "change to the scope of construction works" means a change that is necessary to the scope and/or scale of those works as a result of a single pre-defined exceptional event in respect of an output set out in Table 5 of this condition.

Part C: Assessment of COAE

6I.17 This Part C sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a COAE has occurred; and, if so,
- (b) to determine the adjustment that is to be made because of it.

(i) Licensee's notice to the Authority

6I.18 Where the licensee considers, and can provide supporting evidence, that a COAE has occurred in relation to an output specified in Table 5 in Part B of this condition, it must give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred, and in any event within three months after the end of the Relevant Year in which it occurred (or by such later date as the Authority may notify to the licensee).

6I.19 A notice under paragraph 6I.18 of this condition must:

- (a) be a joint submission with the relevant Transmission Licensees if the notice is in relation to an output specified as being Joint Delivery in Table 5 of Part B to this condition, and set out the change of costs for the output as a whole with reference to the cost allocation methodology set out in the relevant decision letter or SWW determination or a proposal for this if it has not been decided;
- (b) set out the reasons for the request, along with a description of the pre-defined exceptional event specified in Part B to this condition to which the notice relates and why the licensee considers it to be a COAE;
- (c) comply with any relevant requirements the Authority may have set in relation to the COAE provisions in its WHVDC Decision letter or when making its determination on a Strategic Wider Works Output;
- (d) describe progress made in relation to its original project plans for the Delivery of the WHVDC Output or a Strategic Wider Works Output as specified in Part A of this condition;
- (e) describe the requested changes in Part A of this condition and where appropriate to Table 6 in Part G of this condition;
- (f) specify the costs that the licensee expects to be incurred or saved by the COAE, and explain how the amount of those costs has been calculated including relevant evidence on the change to the scope of the construction works;

- (g) provide revised project development plans, design works, forecast costs for the affected project cost items, cost breakdowns for the affected project cost items, annual expenditure profiles, and the construction programme;
- (h) specify whether the licensee expects the COAE to have an impact on the timeline for the Delivery of the WHVDC Output or Strategic Wider Works Output and explain what actions it has or will take to mitigate the impact of the event on the scheduled Delivery date;
- (i) specify any other changes to the output specified in Part A of this condition that the licensee considers necessary as a consequence of the event, and explain how those changes have been calculated;
- (j) describe why the licensee considers that the relevant costs cannot otherwise be recovered under the revenue allowances provided by this condition or by or under any other provision of this licence;
- (k) confirm that none of the costs that are the subject of the notice has been, or will be, notified to the Authority in relation to any other revenue recovery arrangements in this licence; and
- (l) include any other analysis or information that the licensee considers may be relevant to the Authority's consideration of its request.

6L.20 The notice must also contain or be accompanied by:

- (a) details of any relevant calculations of the licensee in which revised expenditure or output specifications have been estimated, and any relevant supporting information;
- (b) a statement procured from independent technical advisers that assess whether or not amendments in relation to the scope of the works, the costs and Delivery timing fairly reflect the effects of the pre-defined exceptional event;

(ii) Determination by the Authority

6L.21 Where the Authority receives notice from the licensee under paragraph 6L.18 to this condition, it will determine in a manner so as to facilitate the timely Delivery of the WHVDC Output or SWW Outputs:

- (a) whether a COAE has occurred in relation to an output that is specified in Table 5 of Part B of this condition; and
- (b) whether the output will remain economical and efficient as a consequence of the pre-defined exceptional event; and
- (c) subject to paragraph 6L.21(a) and (b) of this condition, the adjustment that is to be given effect through a modification under Part G of this condition in relation to the relevant total Allowed Expenditure specified for the output in Table 5 of this condition, including where relevant the COAE for the project as a whole if the relevant project is specified as being Joint Delivery and apportioning this to the licensee where appropriate with reference to the methodology set out in the relevant decision letter or SWW Output determination.

6I.22 Where the Authority determines under paragraph 6I.21 of this condition that each of sub-paragraphs (a) and (b) is satisfied, the adjustment that it determines under sub-paragraph (c) of paragraph 6I.21 must be such as to ensure that the financial position and performance of the licensee will, so far as is reasonably practicable, remain the same as if the COAE had not occurred.

(iii) Revocation

6I.23 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6I.21 of this condition.

Part D: Amendments for Changes in System Background

6I.24 This Part (which should be read in conjunction with Part E of this condition) provides for an Output Amendment (OA) to have effect in relation to Baseline Wider Works Outputs and Strategic Wider Works Outputs specified in Tables 1 or 3 in Part A of this condition.

6I.25 For the purposes of this condition, an OA arises where the Authority is satisfied that:

- (a) there have been changes in the system background compared with the assumptions used initially to model and specify a Baseline Wider Works Output or a Strategic Wider Works Output in Tables 1 or 3 in Part A of this condition.
- (b) those changes will directly result in a difference between:
 - (iii) the capacity increase of the Baseline Wider Works Output or Strategic Wider Works Output in Tables 1 or 3 in Part A respectively;
 - (iv) the achievable capacity increase; and
- (c) amending the Baseline Wider Works Output or Strategic Wider Works Output with a revised capacity increase based on the new information about the system background has no implications for the Allowed Expenditure specified in Tables 1 or 3 in Part A of this condition respectively.

6I.26 In paragraph 6I.25 of this condition, “changes in the system background” mean unforeseen changes in the generation and demand background.

Part E: Assessment of OA

6I.27 This Part E sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a Baseline Wider Works Output and a Strategic Wider Works Output specified in Tables 1 or 3 in Part A of this condition requires an OA (within the meaning of Part D) as a direct result of changes in the system background; and, if so,
- (b) to determine the OA to the Baseline Wider Works Output or the Strategic Wider Works Output that is to be made because of those changes.

(i) Licensee’s notice to the Authority

6I.28 Where the licensee considers, and can provide supporting evidence, that changes in the system background compared with the initial assumptions used to specify a Baseline Wider Works Output or a Strategic Wider Works Output as set out in Tables 1 or 3 in Part A of this condition has had an impact on the description of a Baseline Wider Works Output or a Strategic Wider Works Output, it must give notice to the Authority as soon as is reasonably practicable, and in any event within three months after the end of the Relevant Year in which the Baseline Wider Works Output or the Strategic Wider Works Output was Delivered (or by such later date as the Authority may notify to the licensee).

6I.29 A notice under paragraph 6I.28 of this condition must include:

- (a) a description of the Baseline Wider Works Output or the Strategic Wider Works Output to which the notice relates;
- (b) a progress report in relation to Delivery of the Baseline Wider Works Output or the Strategic Wider Works Output to which the notice relates;
- (c) the reasons for the requested adjustment, along with relevant supporting evidence of the changes in the system background to which the notice relates and why the licensee considers that those changes have directly resulted in a difference between the achievable description of outputs and the relevant description of outputs specified in Tables 1 or 3 in Part A of this condition; and
- (d) a statement that an amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output based on the revised system background would not have implications for the Allowed Expenditure for Delivering that output.

6I.30 The notice must also contain or be accompanied by:

- (a) consideration of whether the amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output set out in the notice has any implications for other Baseline Wider Works Output or Strategic Wider Works Outputs specified in Tables 1 or 3 in Part A of this condition; and
- (b) any other analysis or information that the licensee considers relevant to the Authority's assessment of the event.

(ii) Determination by the Authority

6I.31 Where the Authority receives notice from the licensee under paragraph 6I.28 of this condition, it will determine:

- (a) whether an amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output as set out in the notice is a direct result of changes in the system background; and, if so,
- (b) the adjustment that is to be given effect through a modification under Part F of this condition in relation to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output.

(iii) Revocation

6L.32 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6L.31 of this condition.

Part F: Modification to amend the details of existing Baseline Wider Works Outputs or Strategic Wider Works Outputs or to approve additional Strategic Wider Works Outputs

6L.33 The Authority may direct modifications to Tables 1 to 4 in Part A, Table 5 in Part B and, where applicable to Table 6 in Part G of this condition in order to:

- (a) amend the details of Baseline Wider Works Outputs or Strategic Wider Works Outputs specified in Tables 1 to 4 in Part A of this condition; or
- (b) add details, including the amount of Allowed Expenditure, of additional Strategic Wider Works Outputs for inclusion in Table 3 and Table 4 (if applicable) in Part A, Table 5 in Part B, and Table 6 in Part G of this condition, by applying the provisions of this Part F.

6L.34 A direction under paragraph 6L.33(a) of this condition may arise from:

- (a) a COAE defined in Part B of this condition and determined by the Authority in accordance with Part C of this condition; or
- (b) an OA defined in Part D of this condition and determined by the Authority in accordance with Part E of this condition.

6L.35 A direction issued by the Authority under paragraph 6L.33 of this condition is of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6L.33 of this condition:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) specifying, where appropriate, any output and/or Allowed Expenditure adjustments that have been determined in accordance with Part C, Part E and Part F of this condition; and
 - (iii) specifying the time (which must not be less than a period of 28 days within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

(i) Licensee's notice to the Authority in respect of new Strategic Wider Works Outputs

6L.36 Where the licensee proposes to request that the Authority specify a new Strategic Wider Works Output then it must give notice to the Authority in such form as the Authority may from time to time require.

6L.37 The licensee must provide notice of such a request in accordance with the timeline set out in Final Proposals and in reasonable timescales for the Authority to conduct its assessment

in accordance with the timeline set out in Final Proposals or as amended by the Authority in further guidance it may issue from time to time (or by such alternative date as the Authority may notify to the licensee).

6L.38 A notice under paragraph 6L.36 of this condition must contain:

- (a) a description of the proposed Strategic Wider Works Output and requested Allowed Expenditure for each Relevant Year, including evidence that the proposed output meets the materiality criteria set out by the licensee in the licensee's Network Development Policy in accordance with Part B of Special Condition 6J (Allowed Expenditure for Incremental Wider Works);
- (b) the reasons for the request, including the associated needs case and cost-benefit analysis for the Strategic Wider Works Output and Delivery timescales; This must include all relevant supporting analysis, such as any analysis undertaken by the licensee as part of its Relevant System Planning Activities. In the event of any difference between the needs case and the analysis produced by the licensee as part of its Relevant System Planning Activities, an explanation of the difference and any associated implications must be provided; and
- (c) a planned submission timetable for further information that the licensee considers relevant to the Authority's assessment of the request, taking into account any guidance that may be issued by the Authority for this purpose from time to time.

6L.39 For the purposes of paragraph 6L.38(c) of this condition, relevant information is expected to include, without limitation:

- (a) a specification of the potential risks associated with Delivery and ongoing operation of the proposed Strategic Wider Works Output as well as relevant supporting information on the licensee's risk management strategy and the efficiency of its risk sharing arrangements with consumers;
- (b) a description of the licensee's Delivery plans including a project assessment timeline, project development plans, planning consent details and status, details of the construction programme, and a scheduled completion date.
- (c) evidence of efficient costs including information on detailed design works, the licensee's supplier procurement and tender procedures, forecast costs on a year by year basis, and a breakdown of the forecast costs;
- (d) a description of the additional Strategic Wider Works Output in the form set out in Table 3 in Part A of this condition; and
- (e) any other analysis or information that the licensee considers may be relevant to the Authority's consideration of its request.

(ii) Determination by the Authority

6L.40 Where the Authority receives notice from the licensee under paragraph 6L.36 of this condition in relation to an additional Strategic Wider Works Output, it may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the request and may specify timescales for provision of this information such that it

may be taken into account by the Authority for the purposes of reaching a determination under this paragraph. Subject to timely provision of such information by the licensee, and following consultation with such other parties as the Authority considers may be affected by its determination, the Authority will then determine:

- (a) whether the needs case, technical scope and timing of Delivery are sufficiently well justified and represent long term value for money for existing and future consumers;
- (b) whether the licensee has developed a sufficiently robust development plan and risk sharing arrangements to Deliver the output efficiently; and
- (c) whether there is a sufficiently advanced technical option(s) for the Authority to assess efficient costs and specify a Strategic Wider Works Output; and if so
- (d) the adjustment that is to be given effect through a modification under this Part F.

(iii) Revocation

6L.41 The Authority may, after consulting the licensee, revoke a determination made under paragraph 6L.40 of this condition.

Part G: Determination of revisions to WWE values

6L.42 This Part sets out the process for issuing revisions to WWE values for use in the Annual Iteration Process for the ET1 Price Control Financial Model.

6L.43 Table 6 of this condition sets out the amounts of Allowed Expenditure for Strategic Wider Works Output or the WHVDC Output after any modifications directed under Part F of this condition and the total of those amounts for each Relevant Year of the Price Control Period.

Table 6: WWE values after modifications under Part F

| £m (2009/10 prices) | Relevant Year | | | | | | | |
|---------------------------|---------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| output name | | | | | | | | |
| WWE total | | | | | | | | |

6L.44 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter ascertain whether the WWE value for any Relevant Year is different from the Allowed Expenditure total for the corresponding Relevant Year set out in Table 6 of this condition and, in any case where it is different, the Authority will:

- (a) determine that the WWE value for the Relevant Year concerned is to be revised so as to be the same as the Allowed Expenditure total in Table 6 of this condition; and
- (b) issue a direction, in accordance with the provisions of Part H of this condition specifying any revised WWE values determined under sub-paragraph (a) and the Relevant Years to which they relate.

Part H: Procedure for direction of revised WWE values by the Authority

6I.45 Any revised WWE values determined by the Authority in accordance with Part G of this condition will be directed by the Authority by 30 November or as soon as reasonably practicable thereafter in each Relevant Year t-1.

6I.46 A direction issued by the Authority under paragraph 6I.45 of this condition will be of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6I.45 of this condition:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) stating, where appropriate, that any WWE values have been determined in accordance with Part G of this condition (as appropriate); and
 - (iii) specifying the time (which must not be less than a period of 14 days) within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

6I.47 Where the Authority directs any revised WWE values relating to Relevant Years which are earlier than Relevant Year t (following the date of the direction), the effect of using those revised WWE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6I.48 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised WWE values by 30 November, or as soon as reasonably practicable thereafter, then no revised WWE values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1, and the Authority will take full account of the position when determining and directing any revised WWE values in respect of the next Annual Iteration Process.

Special Condition 6J. Allowed Expenditure for Incremental Wider Works

Introduction

- 6J.1 The purposes of this condition are:
- (a) to specify the basis on which the licensee's Allowed Expenditure for Incremental Wider Works ('IWW Outputs') on the licensee's Transmission System is to be determined; and
 - (b) to determine any appropriate revisions to the PCFM Variable Values relating to the Incremental Wider Works Allowed Expenditure ('IWW values') and the Relevant Years to which those revised IWW values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- 6J.2 The IWW values calculated for a particular Relevant Year will be the amount of Allowed Expenditure (in 2009/10 prices) necessary for the licensee to Deliver IWW Outputs as determined in accordance with the provisions of this condition. The IWW values as at 1 April 2013 are equal to the forecast amounts of Allowed Expenditure specified at the outset of the Price Control Period.
- 6J.3 The application of the mechanisms set out in this condition provides for:
- (a) the specification of baseline and forecast IWW Outputs and the associated Allowed Expenditure;
 - (b) the determination in each Relevant Year t-1 of one or more revisions to IWW values for the IWW Outputs the licensee Delivers in each Relevant Year t-2;
 - (c) the determination of the licensee's Allowed Expenditure for IWW Outputs the licensee forecast it will Deliver in the first two years of the next price control period starting on 1 April 2021; and
 - (d) direction of revised IWW values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
 - (i) reflects Allowed Expenditure amounts determined under Part D of this condition; and
 - (ii) takes account of Allowed Expenditure for IWW Outputs for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of Annual Iteration Process input variable values for Totex Incentive Mechanism adjustments) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

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

Part A: Allowed Expenditure for IWW Outputs

6J.5 Table 1 of this condition sets out the licensee’s baseline expenditure (BIWW) for each Relevant Year of the Price Control Period and the associated baseline incremental Boundary Transfer Capability (BITC), measured as the change in Boundary Transfer Capability in each Relevant Year of the Price Control Period, that the licensee is forecast to achieve through a combination of Baseline Wider Works Outputs (set out in Table 1 of Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure)) and IWW Outputs changes that the licensee may determine are additionally required to comply with the licensee’s Network Development Policy (NDP) pursuant to the provisions in Part B of this condition.

Table 1: Baseline forecast of annual Boundary Incremental Transfer Capability (in MW) and Allowed Expenditure

| Annual BITC on Boundary j | Relevant Year | | | | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|--------------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| 1. B6 | | 1,000 | | | | | | |
| 2. B7 | | 1,400 | | | | | | |
| 3. B7a | | 400 | | | | | | |
| 4. B8 | | | | | | | | |
| 5. B9 | | | | | | 1,000 | | |
| 6. B13 | | | | | | | | |
| 7. B14 | | | 800 | | | | | |
| 8. B14e | | | 700 | 750 | | | 600 | |
| 9. NW1 | | | | | 2,600 | | | |
| 10. NW2 | | | | 3,100 | | | | |
| 11. NW3 | | | | | 1,500 | | | |
| 12. EC1 | | | | | | 2,900 | | |
| 13. EC3 | | | 1,100 | | | | | |
| 14. EC5 | | | 1,000 | | 3,200 | | | |
| 15. SC1 | | | | | 500 | | 500 | |
| BIWW £m (2009/10 prices) | 276.954 | 303.284 | 264.336 | 283.164 | 133.195 | 70.252 | 27.325 | 8.569 |

6J.6 The figures set out in Table 1 of this condition have been reflected in:

- (a) the licensee’s Opening Base Revenue Allowance, set against the licensee’s name in Appendix 1 to Special Condition 3A (Restriction of Transmission Network Revenue); and

- (b) IWW values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013.

Part B: Network Development Policy

- 6J.7 The licensee must submit to the Authority on or before 1 April 2013 (or such later date as the Authority may direct) a Network Development Policy (“Policy”).
- 6J.8 The Policy required by paragraph 6J.7 of this condition must include:
 - (a) an explanation of the objectives of the licensee’s Policy, including but not limited to the determination of the scope and timing of IWW Outputs such that are economical and efficient and meet the needs of existing and future consumers;
 - (b) details of the licensee’s proposed methodology and decision making processes to achieve the objectives of the licensee’s Policy, including but not limited to:
 - (i) the development of model inputs and assumptions;
 - (ii) the approach to modelling Boundary Transfer Capability and requirements for additional capability (IWW Outputs);
 - (iii) the scope of options the licensee will consider in optioneering studies to Deliver IWW Outputs;
 - (iv) the licensee’s assessment (i.e. technical, economic and risk) of options;
 - (v) the licensee’s calculation of the unit cost of each option, which is defined as the option cost (in 2009/10 prices) (or the share of the option cost at a particular boundary) divided by the increase in boundary capability provided by the Delivered option at that boundary;
 - (vi) the decision and option selection criteria the licensee will use to determine whether or not IWW Outputs are advanced into its forward investment programme;
 - (vii) how the licensee will engage with stakeholders to provide input and review various elements such as modelling assumptions, scenarios and proposed IWW Outputs;
 - (c) details of the licensee’s proposed timetable for updating and consulting on its network development planning in each Relevant Year of the Price Control Period;
 - (d) a description of the relevant outputs from the network development planning process including:
 - (i) an update of the licensee’s near-term investment programme, and the licensee’s best view of potential reinforcements that might be required in the longer term;
 - (ii) the documents the licensee intends to publish in relation to its network development planning process for stakeholders such as consultation and decision documents, and any related publications;
 - (e) an explanation of the licensee’s verification processes for actual changes in transfer capability on boundaries in the licensee’s Transmission System as the

result of IWW Outputs the licensee has Delivered which should include but is not limited to:

- (i) a cross-check of the actual generation and demand background against the modelling assumptions used by the licensee in its network development planning process to determine the IWW Output requirement initially;
 - (ii) a cross-check of the actual security standards against the security standards used to determine the IWW Output requirement;
 - (iii) a cross-check of the transfer capability that would otherwise be available on the boundary if the IWW Output had not be Delivered; and
- (f) an explanation of how the licensee will review its Policy and network development planning process to identify potential improvements and implement modifications to further achieve the objectives of the licensee's Policy.

6J.9 Unless the Authority otherwise directs within two months of the date of submission of the Policy by the licensee in accordance with paragraph 6J.7 of this condition, the licensee must use best endeavours to apply the methodology set out in that Policy.

6J.10 Before revising the methodology set out in the Policy, the licensee must submit a copy of the proposed revisions to the Authority.

6J.11 Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 6J.10 of this condition, the revisions will take effect and the licensee must use best endeavours to apply the Policy as revised.

Part C: Calculation of Allowed Expenditure for IWW Outputs

6J.12 Subject to paragraph 6J.7 of this condition, the licensee must assess transfer capability on boundaries within the licensee's Transmission System through the application of the licensee's Policy and notify the Authority annually of the outlook for boundary transfer capability and the IWW Outputs that the licensee has determined it needs to Deliver to fulfil the objectives of the licensee's Policy referred to in paragraph 6J.8 above.

6J.13 The licensee must report annually on the actual transfer capability of boundaries in the licensees' Transmission System and verify the IWW Outputs that the licensee has Delivered in accordance with the licensee's Policy.

6J.14 The value of IWW is to be determined for each Relevant Year n (where n=2014 to 2021 for Relevant Year ending 31 March) in accordance with the following formula:

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

$$IWW_{t,n} = BIWW_n$$

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

$$IWW_{t,n} = BIWW_n + VIWW_{t,n} + TPWW_{t,n}$$

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

$$IWW_{t,n} = IWW_{t-1,n} + VIWW_{t,n} + TPWW_{t,n} + FIWW_{t,n}$$

where:

| | |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| n | means the Relevant Year for which the Allowed Expenditure is calculated. |
| BIWW _n | means the baseline expenditure in Relevant Year n as set out in Table 1 of this condition. |
| VIWW _{t,n} | means the Allowed Expenditure for Delivered IWW Outputs calculated in Relevant Year t for each year n, determined in accordance with paragraph 6J.15 of this condition. |
| TPWW _{t,n} | means the Allowed Expenditure (in 2009/10 prices) for total expenditure efficiently incurred by the licensee to progress an IWW Output determined by the licensee in accordance with its Policy in Part B of this condition, which is then not required in the original timescales in an application of the Policy by the licensee in Relevant Year t-2 and cannot be used subsequently to contribute to the other outputs Delivered by the licensee. |
| FIWW _{t,n} | means the Allowed Expenditure for the licensee's forecast of IWW Outputs to be Delivered in the first two years of the next price control period starting 1 April 2021, calculated in accordance with paragraph 6J.16 of this condition. |

6J.15 The value of VIWW_{t,n} is to be determined for Relevant Year t = 2015/16 and each subsequent Relevant Year in accordance with the following formula for each Relevant Year n (where n=2014 to 2021 for Relevant Year ending 31 March) where information is available for Relevant Year t-2:

$$VIWW_{t,n} = \{ [\sum_{j=1 \text{ to } 15} (\sum_{\text{all } i} BTITC_{i,j,t-2} - BITC_{j,t-2}) \times BTUCA_j] + [\sum_{j=1 \text{ to } 15} \sum_{\text{all } i} ATITC_{i,j,t-2} \times ATUCA_{i,j}] \} \times RPE_n \times WFWW_{t-2,n}$$

where:

| | |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| n | has the same meaning as in paragraph 6J.14 of this condition. |
| i | indexes all individual projects which the licensee verifies and reports to the Authority has Delivered an IWW Output in Relevant Year t-2 (where i = 1 to N). |
| j | means boundary j as set out in Table 1 of this condition. |
| $\sum_{\text{all } i} BTITC_{i,j,t-2}$ | means the below baseline sum of incremental transfer capability Delivered by the licensee in Relevant Year t-2 through all projects i on boundary j. Projects i on boundary j are treated as below the baseline if the cumulative total of all IWW |

Outputs Delivered on that boundary after 1 April 2013 is equal to or below the Incremental Transfer Capability Threshold for that boundary j set out in Table 2 of this condition.

If a particular project i takes the cumulative total of all IWW Outputs on boundary j from below to above the Incremental Transfer Capability Threshold for that boundary then only the part of Boundary Transfer Capability provided by project i up to the Threshold should be included in the below baseline sum of incremental transfer capability.

If more than one project is Delivered on boundary j in Relevant Year t-2 the projects are to be added to the cumulative total of all IWW Outputs delivered after 1 April 2013 so that the project with the unit cost that is closest to the below threshold unit cost allowance for boundary j set out in Table 2 is added to cumulative total first.

$BITC_{j,t-2}$

means the baseline incremental transfer capability at boundary j forecast for Relevant Year t-2 as set out in Table 1 of this condition.

$BTUCA_j$

means the unit cost allowance for BTITC on boundary j as defined in this paragraph 6J.15 and is set out in Table 2 of this condition.

$\sum_{all\ i} ATITC_{i,j,t-2}$

means the above baseline sum of incremental transfer capability, provided by all projects i (in whole or in part), on boundary j in Relevant Year t-2.

Projects i on boundary j are treated as above the baseline if the cumulative total of all IWW Outputs Delivered on that boundary after 1 April 2013 exceeds the Incremental Transfer Capability Threshold for boundary j set out in Table 2 of this condition.

If a particular project i takes the cumulative total of all IWW Outputs on boundary j after 1 April 2013 from below to above the Incremental Transfer Capability Threshold for that boundary then only then only the part of Boundary Transfer Capability provided by project i above the Threshold should be included in the above baseline sum of incremental transfer capability.

$ATUCA_{i,j}$

means the unit cost allowance as set out in Table 2 of this condition for project i in ATITC as defined in this paragraph 6J.15.

RPE_n

is defined in Part B of Special Condition 6F (Baseline Generation Connections Outputs and Generation Connections volume driver).

$WFWW_{t-2,n}$

means the weighting factor for expenditure in year n for an IWW Output Delivered in Relevant Year t-2 as set out in Table 3 of this condition.

Table 2: Boundary Unit Cost Allowances for IWW Outputs

| Boundary j | ITC Threshold (MW) | If cumulative IWW Output delivered on boundary after 1 April 2013 is less than Incremental Transfer Capability Threshold | If cumulative IWW Output Delivered on boundary is greater than ITC Threshold | |
|------------|--------------------|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------|
| | | BTUCA (£k/MW) | Unit Cost of option i (£k/MW) | ATUCA for option i (£k/MW) |
| 1. B6 | 1000 | 81.4 | All | 90.3 |
| 2. B7 | 1400 | 62.4 | All | 61.8 |
| 3. B7a | 400 | 51.6 | All | 76.3 |
| 4. B8 | 0 | 0.0 | All | 14.4 |
| 5. B9 | 1000 | 9.7 | All | 57.0 |
| 6. B13 | 0 | 0.0 | All | 67.9 |
| 7. B14 | 800 | 106.3 | All | 34.7 |
| 8. B14e | 2050 | 100.8 | ≤ 250 | 50.8 |
| | | | > 250 | 290.1 |
| 9. NW1 | 2600 | 52.8 | All | 26.8 |
| 10. NW2 | 3100 | 51.8 | All | 44.0 |
| 11. NW3 | 1500 | 63.9 | All | 44.0 |
| 12. EC1 | 2900 | 88.0 | All | 88.0 |
| 13. EC3 | 1100 | 42.3 | All | 42.3 |
| 14. EC5 | 4200 | 69.9 | ≤ 125 | 36.5 |
| | | | 125 < x ≤ 400 | 149.2 |
| | | | > 400 | 553.4 |
| 15. SC1 | 1000 | 97.4 | All | 112.2 |

Table 3: Weighting factors for IWW Outputs

| Relevant Year t-2 | Expenditure year n | | | | | | | |
|-------------------|--------------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| 2014 | 1.00 | | | | | | | |
| 2015 | 0.79 | 0.21 | | | | | | |
| 2016 | 0.42 | 0.37 | 0.21 | | | | | |
| 2017 | 0.16 | 0.26 | 0.37 | 0.21 | | | | |
| 2018 | | 0.16 | 0.26 | 0.37 | 0.21 | | | |
| 2019 | | | 0.16 | 0.26 | 0.37 | 0.21 | | |
| 2020 | | | | 0.16 | 0.26 | 0.37 | 0.21 | |
| 2021 | | | | | 0.16 | 0.26 | 0.37 | 0.21 |
| 2022 | | | | | | 0.16 | 0.26 | 0.37 |
| 2023 | | | | | | | 0.16 | 0.26 |

6J.16 For the purposes the Principal Formula, the value of $FIWW_{t,n}$ is to be calculated from the following such formula as is applicable:

(a) In Relevant Years $t = 2016/17$ to $2017/18$:

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

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

$$FIWW_{t,n} = \sum_{d=2022 \text{ to } 2023} [\sum_{j=1 \text{ to } 15} \{ (\sum_{\text{all } i} FBTITC_{i,j,d} \times BTUCA_j) + (\sum_{\text{all } i} FATITC_{i,j,d} \times ATUCA_{i,j}) \} \times RPE_n \times WFWW_{d,n}]$$

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

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

where:

- D means the Relevant Year in which the licensee forecasts it will Deliver the IWW Outputs.
- N has the same meaning as given in paragraph 6J.14 of this condition.
- I has the same meaning as given in paragraph 6J.15 of this condition.
- J has the same meaning as given in paragraph 6J.15 of this condition.
- $FBTITC_{i,j,d}$ means the forecast below baseline sum of incremental transfer capability Delivered by the licensee in Relevant Year d through all projects i on boundary j .

Projects i on boundary j are treated as below the baseline if the cumulative total of all IWW Outputs Delivered on that boundary after 1 April 2013 is equal to or below the Incremental Transfer Capability Threshold for that boundary j set out in Table 2 of this condition.

If project i is expected to take the forecast cumulative total of all IWW Outputs on boundary j from below to above the Incremental Transfer Capability Threshold for that boundary then only the part of Boundary Transfer Capability provided by project i up to the Threshold should be included in the below baseline sum of incremental transfer capability.

If more than one project is forecast to be Delivered on boundary j in Relevant Year d the projects are to be added to the forecast cumulative total of all IWW Outputs delivered after 1 April 2013 so that the project with the unit cost that is closest to the below threshold unit cost allowance for boundary j set out in Table 2 is added to cumulative total first.

BTUCA_{i,j}

means the unit cost allowance for FBTITC on boundary j as defined in this paragraph 6J.16 and is set out in Table 2 of this condition.

FATITC_{i,j,d}

means the forecast above baseline sum of incremental transfer capability provided by project i (in whole or part) on boundary j in Relevant Year d.

Projects i on boundary j are to be treated as above the baseline if the forecast cumulative total of all IWW Outputs Delivered on that boundary after 1 April 2013 exceeds the Incremental Transfer Capability Threshold for boundary j set out in Table 2 of this condition.

If a particular project i is forecast to take the cumulative total of all IWW Outputs on boundary j after 1 April 2013 from below to above the Incremental Transfer Capability Threshold for that boundary then only then only the part of Boundary Transfer Capability forecast to be provided by project i above the Threshold should be included in the forecast above baseline sum of incremental transfer capability.

ATUCA_{i,j} means the unit cost allowance as set out in Table 2 of this condition for option i in FATITC as defined in this paragraph 6J.16.

WFWW_{d,n} has the same meaning as paragraph 6J.15 in this condition, except d replaces t-2.

Part D: Determination of revisions to IWW values

6J.17 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part E of this condition, specifying the revised IWW values for all years of the Price Control Period.

6J.18 The IWW values directed by the Authority will be deemed to be set out in the format of Table 4 in this condition showing the total amounts of Allowed Expenditure for IWW Outputs for each Relevant Year n of the Price Control Period after any modifications calculated in accordance with the formulae set out in Part C in this condition.

Table 4: IWW values (£m, 2009/10 prices) after modifications in Part C

| Relevant Year n | Relevant Year t | | | | | | | |
|-----------------|-----------------|---------|---------|---------|---------|---------|---------|---------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| 2014 | | | | | | | | |
| 2015 | | | | | | | | |
| 2016 | | | | | | | | |
| 2017 | | | | | | | | |
| 2018 | | | | | | | | |
| 2019 | | | | | | | | |
| 2020 | | | | | | | | |
| 2021 | | | | | | | | |
| Total | | | | | | | | |

6J.19 The Authority may revise the IWW value for a Relevant Year notwithstanding that the IWW values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the IWW terms in respect of the earlier Relevant Years or to correct errors in relation to those values;
- (b) the revised IWW value is calculated in accordance with the formulae set out in Part C of this condition; and
- (c) the revised IWW value is specified in a direction issued in accordance with the provisions of Part E of this condition.

Part E: Procedure to be followed for the direction of revised IWW values

6J.20 A direction issued by the Authority under paragraph 6J.17 in this condition is of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6J.17:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) stating, where appropriate, that any IWW values have been determined in accordance with Part C of this condition;
 - (iii) specifying the time (which must not be less than a period of 14 days) within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

6J.21 Where the Authority directs any revised IWW values under paragraph 6J.17 of this condition, the effect of using those revised IWW values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6J.22 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised IWW values by 30 November, then no revised IWW values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority will take full account of the position when determining and directing any revised IWW values in respect of the next Annual Iteration Process.

Special Condition 6K. Allowed Expenditure for meeting planning requirements and volume driver

Introduction

6K.1 The purposes of this condition are:

- (a) to specify the basis of calculating adjustments to Allowed Expenditure for Underground Cabling in new transmission routes and DNO Mitigation works arising from planning requirements; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the DNO Mitigation and Underground Cabling Allowed Expenditure ('UCE' values) and the Relevant Years to which those revised UCE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6K.2 The 'UCE value' calculated in a particular Relevant Year t-1, is the amount of Allowed Expenditure (in 2009/10 prices) for each Relevant Year of the Price Control Period for DNO Mitigation and Underground Cabling works required as part of new transmission infrastructure as determined in accordance with this condition.

6K.3 This condition provides for:

- (a) the determination in Relevant Year t-1 of Allowed Expenditure required in each Relevant Year of the Price Control Period for amounts of DNO Mitigation works and Underground Cabling that is required or forecast to be required to fulfil conditions of planning consents for new transmission infrastructure;
- (b) the determination of and direction by the Authority of revised UCE values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
 - (i) reflects approved changes to the allowed Underground Cabling and DNO Mitigation expenditure specified in this condition; and
 - (ii) takes account of approved changes to the allowed Underground Cabling and DNO Mitigation expenditure specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

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

Part A: Allowed Expenditure for meeting planning requirements associated with new transmission infrastructure

6K.5 Table 1 of this condition sets out the amount of Allowed Expenditure set at the start of the Price Control Period for Underground Cabling and DNO Mitigation that the licensee might be required to deliver to meet conditions or requirements under the Planning Act 2008, the Town and Country Planning Act 1990, the Act or any order or obligation pursuant thereto.

Table 1: Allowed Expenditure for Underground Cabling and DNO Mitigation

| £m (2009/10 prices) | Relevant Year | | | | | | | |
|---------------------|---------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| Underground Cabling | 22.154 | 65.710 | 87.639 | 132.091 | 75.215 | 40.961 | 27.456 | 3.274 |
| DNO Mitigation | 11.154 | 8.777 | 4.534 | 1.426 | 0.000 | 0.000 | 0.000 | 0.000 |

6K.6 The figures set out in Table 1 in this condition have been reflected in:

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

Part B: Calculation of the value of Allowed Expenditure for meeting planning requirements

6K.7 The licensee must notify the Authority of the amount, if any, of Underground Cabling or DNO Mitigation works the licensee is required to deliver as part of a new transmission infrastructure project to meet the conditions or requirements referred to in paragraph 6K.5 of this condition.

6K.8 Upon completion of works covered by this condition, the licensee must report to the Authority on the actual volume of Underground Cabling and DNO Mitigation works delivered in each year.

6K.9 The value of $UCE_{t,n}$ is to be derived for Relevant Year $t = 2015/16$ and each subsequent Relevant Year from the following formula for each Relevant Year n (where $n=2014$ to 2021 for Relevant Year ending 31 March):

$$UCE_{t,n} = \sum_{d=2017 \text{ to } 2024} [\sum_{\text{for all } x} [\sum_{m=1 \text{ to } 15} (FUGC_{x,m,d} + RUGC_{x,m,d}) \times CUCA_m] \times WUG_{n,d} \times RPE_n + DMA_d]$$

where:

N means the year for which the Allowed Expenditure is calculated.

| | |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| D | means the year in which the circuit containing the underground cable section is commissioned. |
| M | means the underground cable type which is specified both by its construction and by its section length as set out in Table 2 in this condition. |
| X | means the number of sections of underground cable (i.e. $x = 0$ to N). |
| $FUGC_{x,m,d}$ | means the underground cabling section x of type m in circuit kilometres forecast to be required by the licensee, but not yet specified by the conditions or requirements referred to in paragraph 6K.5 in this condition. |
| $RUGC_{x,m,d}$ | means the actual underground cabling section x of type m in circuit kilometres specified by the conditions or requirements referred to in paragraph 6K.5 in this condition and that are Delivered in year d . |
| $CUCA_m$ | means the costs per section length for each underground cable type m as set out in Table 2 in this condition. |
| $WUG_{n,d}$ | means the weighting factor for expenditure in year n for Delivery in year d set out in Table 3 in this condition. |
| RPE_n | has the same meaning as defined in Part B of Special Condition 6F (Baseline Generation Connection Outputs and Generation Connections volume driver) for Relevant Year n . |
| DMA_d | means the DNO Mitigation Allowed Expenditure for DNO Mitigation Outputs delivered in year d and calculated in accordance with Part C of this condition. |

6K.10 The section lengths of underground cabling for FUGC and RUGC shall be the measured central core lengths between cable sealing end compounds or cable entry bushings per circuit, and shall be rounded to the nearest 0.1km. If two or more sections of underground cabling are required in a circuit, these sections shall be treated as discrete lengths (x) when determining which underground cable type, m , to apply.

Table 2: Unit cost allowances for Underground Cabling

| m | Underground cable type | x, section length in route km | $CUCA_m$ £m/ circuit kilometre (2009/10 prices) |
|----------|------------------------------------------------|--------------------------------------|---------------------------------------------------------------------------|
| 1 | 1 core per phase \leq 2500mm ² | $x < 3$ | 5.2 |
| 2 | | $3 \leq x < 15$ | 4.1 |
| 3 | | $x \geq 15$ | 3.9 |
| 4 | 1 core per phase $>2500\text{mm}^2$ | $x < 3$ | 5.5 |
| 5 | | $3 \leq x < 15$ | 4.4 |
| 6 | | $x \geq 15$ | 4.2 |

| m | Underground cable type | x, section length in route km | CUCA _m £m/ circuit kilometre (2009/10 prices) |
|----|-------------------------------------------|-------------------------------|----------------------------------------------------------------|
| 7 | 2 core per phase ≤ 2500mm ² | x < 3 | 9.4 |
| 8 | | 3 ≤ x < 15 | 7.8 |
| 9 | | x ≥ 15 | 7.6 |
| 10 | 2 core per phase > 2500mm ² | x < 3 | 10.0 |
| 11 | | 3 ≤ x < 15 | 8.4 |
| 12 | | x ≥ 15 | 8.2 |
| 13 | 3 cores per phase ≤2500mm ² | x < 3 | 13.6 |
| 14 | | 3 ≤ x < 15 | 11.5 |
| 15 | | x ≥ 15 | 11.3 |

Table 3: Weighting factors for Underground Cabling

| Delivery year d | Expenditure year n | | | | | | | |
|-----------------|--------------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| 2017 | 0.2 | 0.5 | 0.2 | 0.1 | | | | |
| 2018 | | 0.2 | 0.5 | 0.2 | 0.1 | | | |
| 2019 | | | 0.2 | 0.5 | 0.2 | 0.1 | | |
| 2020 | | | | 0.2 | 0.5 | 0.2 | 0.1 | |
| 2021 | | | | | 0.2 | 0.5 | 0.2 | 0.1 |
| 2022 | | | | | | 0.2 | 0.5 | 0.2 |
| 2023 | | | | | | | 0.2 | 0.5 |
| 2024 | | | | | | | | 0.2 |

Part C: Calculation of Allowed Expenditure for DNO Mitigation

6K.11 The non-profiled Allowed Expenditure for DNO Mitigation in Relevant Year d is to be derived from the following formula:

$$DMA_d = \sum_{g=1 \text{ to } 5} (FV_{g,d} + RV_{g,d}) \times DUCA_g \times RPE_d$$

where:

| | |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| d | is defined in Part B of this condition, |
| g | means the type of mitigation works the licensee is required to deliver on the DNO network as set out in Table 4 in this condition. |
| FV _{g,d} | means the volume of DNO Mitigation type g forecast by the licensee to be required and delivered in year d, but not yet specified by the conditions or requirements referred to in paragraph 6K.5 in this condition. |
| RV _{g,d} | means the volume of DNO Mitigation type g specified by the conditions or requirements referred to in paragraph 6K.5 in this condition and are delivered in year d. |
| DUCA _g | means the Unit Cost Allowance for DNO Mitigation type g as set out in the confidential document ‘Agreed Unit Cost Library for DNO Mitigations’ which is reproduced below as Table 4 in this condition in a redacted form. |
| RPE _d | has the same meaning as defined in Part B of Special Condition 6F for Relevant Year d. |

Table 4: Unit cost allowances for DNO Mitigation

| g | DNO Mitigation works | Units | DUCA _g £m/unit (2009/10 prices) |
|---|------------------------------------------|-------------------|-----------------------------------------------|
| 1 | DNO undergrounding | Circuit kilometre | 1.1 |
| 2 | DNO tower removal | Number of towers | REDACTED |
| 3 | New build Overhead line – single circuit | Circuit kilometre | 0.7 |
| 4 | New build Overhead line – double circuit | Circuit kilometre | 0.8 |
| 5 | New build DNO substation bays | Number of bays | REDACTED |

Part D: Determination of revisions to UCE values

6K.12 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part E of this condition, specifying the revised UCE values for Relevant Years n.

6K.13 The directed UCE values will be deemed to be set out in the format of Table 5 in this condition showing the amounts of Allowed Expenditure for meeting planning requirements after any modifications calculated in accordance with the formula set out in Parts B and C of this condition and the total of those amounts for each Relevant Year of the Price Control Period.

Table 5: UCE values after modifications under Parts B and C for meeting planning requirements (£m 2009/10 prices)

| Relevant Year n | Calculated in Relevant Year t | | | | | | | |
|-----------------|-------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| 2014 | | | | | | | | |
| 2015 | | | | | | | | |
| 2016 | | | | | | | | |
| 2017 | | | | | | | | |
| 2018 | | | | | | | | |
| 2019 | | | | | | | | |
| 2020 | | | | | | | | |
| 2021 | | | | | | | | |
| Total | | | | | | | | |

6K.14 The Authority may revise the UCE value for a Relevant Year notwithstanding that the UCE values concerned might have been previously revised, provided that:

- (a) the revision is necessary to reflect a review by the Authority of the values of the term UCE for the earlier Relevant Years or to correct errors in relation to those values;
- (b) the revised UCE value for the earlier Relevant years is calculated in accordance with the formula set out in Part B in this condition, but substituting $RUGC_{m,d}$ with the actual length of Underground Cabling the licensee delivered in respect of type m;
- (c) the revised UCE value for the earlier Relevant Years is calculated in accordance with the formula set out in Part C in this condition, but substituting $RV_{g,d}$ with the actual volume of DNO Mitigation the licensee delivered in respect of type g; and
- (d) the revised UCE value for the earlier Relevant Years is specified in a direction issued in accordance with the provisions of Part E of this condition.

Part E: Procedure for direction of revised UCE values by the Authority

6K.15 A direction issued by the Authority under paragraph 6K.12 in this condition is of no effect unless the Authority has first:

- (a) given notice to the licensee of all of the values that it proposes to issue a direction under paragraph 6K.12:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) stating that the revised UCE values have been determined in accordance with Parts B and C of this condition;

- (iii) specifying the time (which must not be less than a period of 14 days) within which any representations concerning the proposed direction may be made; and
 - (b) considered any representations in response to the notice that are duly made and not withdrawn.
- 6K.16 Where the Authority directs any revised UCE values under paragraph 6K.12 in Part D of this condition, the effect of using those revised UCE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.
- 6K.17 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised UCE values by 30 November, then no revised UCE values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1 and in those circumstances, the Authority will take full account of the position when determining and directing any revised UCE values in respect of the next Annual Iteration Process.

Special Condition 6L. Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver

Introduction

- 6L.1 The purposes of this condition are:
- (a) to specify the basis on which the licensee's levels of Allowed Expenditure on Demand Related Infrastructure Works ('Demand Works') on the licensee's Transmission System are to be derived; and
 - (b) to determine any appropriate revisions to the PCFM Variable Values relating to the Demand Works Allowed Expenditure ('DRI' values) and the Relevant Years to which those revised DRI values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- 6L.2 The DRI values calculated in a particular Relevant Year t are the amount of Allowed Expenditure (in 2009/10 prices) in each Relevant Year of the Price Control Period for the licensee to deliver Demand Works as determined in accordance with the provisions of this condition. The DRI values as at 1 April 2013 are equal to the forecast amounts of baseline expenditure specified at the outset of the Price Control Period.
- 6L.3 The application of the mechanisms set out in this condition provides for:
- (a) the specification of the baseline Demand Works and the associated Allowed Expenditure;
 - (b) the determination in Relevant Year t of the licensee's Allowed Expenditure in each year n for Demand Works the licensee delivers in year t-2;
 - (c) the determination of the licensee's Allowed Expenditure for Demand Works the licensee forecast it will deliver in the first two years of the next price control period starting on 1 April 2021; and
 - (d) the direction of revised DRI values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:
 - (i) reflects Allowed Expenditure amounts determined under Part C of this condition; and
 - (ii) takes account of Allowed Expenditure on Demand Works for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.
- 6L.4 This condition should be read and construed in conjunction with, Special Condition 5B, and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

Part A: Baseline Demand Related Infrastructure Works and Allowed Expenditure

6L.5 Table 1 sets out the baseline forecast of the transformers and overhead line components of Demand Works, BQSGT and BDOHL respectively, for each Relevant Year in the Price Control Period and the total baseline expenditure (BDRI), in 2009/10 prices, associated with those Demand Works as at 1 April 2013.

Table 1: Baseline Demand Works and Allowed Expenditure

| | Relevant Year | | | | | | | |
|-----------------------------------------------|---------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| Super Grid Transformers BQSGT (number) | 4 | 6 | 8 | 9 | 17 | 8 | 10 | 10 |
| Overhead Line BDOHL (circuit km) | 7 | 0 | 0 | 3 | 6 | 0 | 11 | 0 |
| Allowed Expenditure (BDRI) (£m) | 47.784 | 36.187 | 32.388 | 32.828 | 50.590 | 41.373 | 12.474 | 0.933 |

6L.6 The figures set out in Table 1 in this condition have been reflected in:

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

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

Part B: Allowed Expenditure for Demand Works

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

- For Relevant Years t = 2013/14 and 2014/15:

$$DRI_{t,n} = BDRI_n$$

- In Relevant Year t = 2015/16:

$$DRI_{t,n} = BDRI_n + VDRI_{t,n} + (TPD_{t-2} - TPRD_{t-2})$$

- In Relevant Year t = 2016/17 and all following Relevant Years:

$$DRI_{t,n} = DRI_{t-1,n} + VDRI_{t,n} + (TPD_{t-2} - TPRD_{t-2}) + FDRI_{t,n}$$

where:

| | |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| n | means the Relevant Year for which the Allowed Expenditure is calculated. |
| BDRI _n | means the Baseline Demand Works Expenditure in Relevant Year n as set out in Table 1. |
| VDRI _{t,n} | means the Allowed Expenditure for Delivered Demand Works calculated in Relevant Year t for each Relevant Year n, determined in accordance with paragraph 6L.9 of this condition. |
| TPD _{t-2} | means the total expenditure (in 2009-10 prices) efficiently incurred by the licensee in respect Demand Works where the users terminate the relevant bilateral agreements in Relevant Year t-2 prior to commencing use of the demand connection. |
| TPRD _{t-2} | means an amount equal to the termination receipts received, in the form of revenues or capital contributions, in respect of TPD _{t-2} in Relevant Year t-2. |
| FDRI _{t,n} | means Allowed Expenditure for the licensee's forecast of Demand Works to be Delivered in the next price control period starting 1 April 2021, calculated in accordance with paragraph 6L.10 of this condition. |

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

$$VDRI_{t,n} = [(AQSGT_{t-2} - BQSGT_{t-2}) \times \text{£}3.9\text{million}] + \{(ADOHL_{t-2} - BDOHL_{t-2}) \times \text{£}1.1\text{million}\} + \{\sum_{\text{for all } x} \sum_{m=1 \text{ to } 15} (ADCBL_{x,m,d} \times COUCA_m)\} \times RPE_n \times WFD_{t-2,n}$$

where:

| | |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| n | has the same meaning given in 6L.8 of this condition. |
| m | means the underground cable type which is specified both by its construction and by its section length as set out in Table 2 in Part B of Special Condition 6F. (Baseline Generation Connections Outputs and Generation Connections volume driver). |
| x | means the number of sections of underground cable Delivered (i.e. x = 0 to N). |
| AQSGT _{t-2} | means the actual number of supergrid transformers Delivered as part of Demand Works in Relevant Year t-2. |

| | |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| BQSGT _{t-2} | means the baseline number of super grid transformers for Relevant Year t-2 as set out in Table 1 in this condition. |
| ADOHL _{t-2} | means the actual length of overhead line in circuit kilometres commissioned as part of the Demand Works Delivered in Relevant Year t-2. |
| BDOHL _{t-2} | means the baseline length of overhead line in circuit kilometres in Relevant Year t-2 as set out in Table 1 in this condition. |
| ADCBL _{x,m,t-2} | means the actual underground cabling section x of type m in circuit kilometres commissioned as part of the Demand Works Delivered in Relevant Year t-2. |
| COUCA _m | is defined in Part B of Special Condition 6F. (Baseline Generation Connections Outputs and Generation Connections volume driver). |
| RPE _n | is defined in Part B of Special Condition 6F. (Baseline Generation Connections Outputs and Generation Connections volume driver). |
| WFD _{t-2,n} | means the weighting factor for expenditure in year n for Delivery year t-2 set out in Table 2 in this condition. |

Table 2: Weighting factors for Demand Works

| Relevant Year t | Expenditure year n | | | | | | | |
|-----------------|--------------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| 2014 | 1.00 | | | | | | | |
| 2015 | 0.89 | 0.11 | | | | | | |
| 2016 | 0.45 | 0.44 | 0.11 | | | | | |
| 2017 | | 0.45 | 0.44 | 0.11 | | | | |
| 2018 | | | 0.45 | 0.44 | 0.11 | | | |
| 2019 | | | | 0.45 | 0.44 | 0.11 | | |
| 2020 | | | | | 0.45 | 0.44 | 0.11 | |
| 2021 | | | | | | 0.45 | 0.44 | 0.11 |
| 2022 | | | | | | | 0.45 | 0.44 |
| 2023 | | | | | | | | 0.45 |

6L.10 The value of $FDRI_{t,n}$ is to be calculated from the following such formula as is applicable:

(a) In Relevant Years $t = 2016/17$ to $2017/18$:

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

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

$$FDRI_{t,n} = \sum_{d=2022 \text{ to } 2023} [SGTF_d \times \text{£}3.9\text{million} + FDOHL_d \times \text{£}1.1\text{million} + \sum_{\text{for all } x} \sum_{m=1 \text{ to } 15} (FDCBL_{x,m,d} \times COUCA_m)] \times RPE_n \times WFD_{d,n}$$

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

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

where:

| | |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| d | means the Relevant Year in which the licensee forecasts it will Deliver the completed Demand Works. |
| $SGTF_d$ | Means the number of new supergrid transformers that the licensee forecasts it will Deliver in year d to fulfil a Relevant User Connection Agreement or Relevant User Agreement to Vary as defined in the CUSC. |
| $FDOHL_d$ | means the length of overhead line in circuit kilometres the licensee forecasts to be required as part of Delivering customers' demand connections agreements in year d . |
| m | has the same meaning as given in paragraph 6L.9 of this condition. |
| x | has the same meaning as given in paragraph 6L.9 of this condition. |
| $FDCBL_{x,m,d}$ | means the underground cabling section x of type m in circuit kilometres of commissioned as part the licensee forecasts to be required as part of Delivering customers' demand connections agreements in year d . |
| $COUCA_m$ | is defined in Part B of Special Condition 6F. |
| RPE_n | is defined in Part B of Special Condition 6F. |
| $WFD_{d,n}$ | has the same meaning as paragraph 6L.9 in this condition, except d replaces Relevant Year $t-2$. |

Part C: Determination of revisions to DRI values

- 6L.11 The Authority will, by 30 November in each Relevant Year $t-1$, or as soon as reasonably practicable thereafter, issue a direction, in accordance with the provisions of Part D of this condition, specifying the revised DRI values for all years of the Price Control Period.
- 6L.12 The DRI values directed by the Authority will be deemed to be set out in the format of Table 3 in this condition showing the total amounts of Allowed Expenditure for Generation Connections for each Relevant Year n of the Price Control Period after any

modifications calculated in accordance with the formulae set out in Part B in this condition.

Table 3: DRI values (£m, 2009/10 prices) after modifications in Part B

| Relevant Year n | Relevant Year t | | | | | | | |
|-----------------|-----------------|---------|---------|---------|---------|---------|---------|---------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| 2014 | | | | | | | | |
| 2015 | | | | | | | | |
| 2016 | | | | | | | | |
| 2017 | | | | | | | | |
| 2018 | | | | | | | | |
| 2019 | | | | | | | | |
| 2020 | | | | | | | | |
| 2021 | | | | | | | | |

6L.13 The Authority may revise the DRI value for a Relevant Year notwithstanding that the DRI values concerned might have been previously revised, provided that:

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

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

6L.14 A direction issued by the Authority under paragraph 6L.11 in this condition is of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6L.11:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) stating, where appropriate, that any DRI values have been determined in accordance with Part B of this condition;
 - (iii) specifying the time (which must not be less than a period of 14 days) within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

6L.15 Where the Authority directs any revised DRI values for ‘earlier Relevant Years’ under paragraph 6L.11 of this condition, the effect of using those revised DRI values in the

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

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

Chapter 7: Annual Iteration Process - Adjustments to the System Operator Revenue

Special Condition 7A. Legacy price control adjustments – System Operator

Introduction

- 7A.1 The purpose of this condition is to determine any appropriate revisions to the PCFM Variable Values for Relevant Year 2013/14 relating to the items specified in Part A of this condition for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- 7A.2 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an appropriate adjustment of the licensee's Maximum SO Internal Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the licensee in respect of:
- (a) activities carried out by the licensee;
 - (b) incentivised performance by the licensee; and/or
 - (c) costs or expenditure incurred by the licensee,
- in Relevant Years prior to Relevant Year 2013/14 (the 'legacy period'), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.
- 7A.3 This condition should be read and construed in conjunction with Special Condition 5B and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).
- 7A.4 There are no provisions to revise PCFM Variable Values relating to legacy price control adjustments for Relevant Years other than Relevant Year 2013/14 because, under the Annual Iteration Process, all of the calculations necessary to achieve the result referred to in paragraph 7A.2 are made using values for Relevant Year 2013/14.

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

- 7A.5 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) SO legacy price control revenue allowance adjustments (SOLAR values); and
 - (b) SO legacy price control adjustments to SO RAV balance additions (SOLRAV values),
- for Relevant Year 2013/14.
- 7A.6 The SOLAR and SOLRAV values for each Relevant Year are zero as at 1 April 2013.

7A.7 Subject to paragraph 7A.8 of this condition, the Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter:

- (a) determine whether any SOLAR or SOLRAV values should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined.

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

7A.9 Revisions to the SOLAR value for Relevant Year 2013/14 will be determined in accordance with the following formula:

$$\text{SOLAR} = \text{SOCAR} + \text{SOOIR}$$

where:

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

SOOIR means the revenue allowance adjustment in respect of legacy period System Operator expenditure incentive scheme adjustments, determined in accordance with Part B of this condition.

7A.10 Revisions to the SOLRAV value for Relevant Year 2013/14 will be determined in accordance with the following formula:

$$\text{SOLRAV} = \text{SOCRAV}$$

where:

SOCRAV means the adjustment to the licensee's SO RAV balance additions in respect of the SO Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.

7A.11 The effect of using revised SOLAR and SOLRAV values for Relevant Year 2013/14 in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt, in respect of any particular Annual Iteration Process, no previously directed value of the term SOMOD will be retrospectively affected.

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

- 7A.12 This Part B provides for the determination of component term values for the formulae set out in Part A that are used to determine revisions to SOLAR and SOLRAV values for Relevant Year 2013/14.
- 7A.13 Subject to paragraph 7A.8, the Authority will, by 30 November in each Relevant Year t-1, determine the value of the component terms SOCAR, SOOIR and SOCRAV, in accordance with the methodology set out in part 2 of chapter 15 of the ET1 Price Control Financial Handbook.
- 7A.14 The first Relevant Year in which the Authority will make determinations pursuant to paragraph 7A.13 of this condition is Relevant Year 2013/14 for the purpose of determining any revisions to SOLAR and SOLRAV values for the Annual Iteration Process that will take place by 30 November 2013.

Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to SO legacy price control adjustments by the Authority

- 7A.15 Subject to paragraph 7A.8 of this condition, revised SOLAR values and SOLRAV values for Relevant Year 2013/14, determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 7A.16 Any direction issued under paragraph 7A.15 of this condition will include a statement of the component term values determined under Part B of this condition.
- 7A.17 Before issuing any directions under paragraph 7A.15 of this condition, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 7A.18 The notice referred to in paragraph 7A.15 of this condition must:
- (a) state that any revised SOLAR and SOLRAV values for Relevant Year 2013/14 have been determined in accordance with Parts A and B of this condition; and
 - (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised SOLAR or SOLRAV values.
- 7A.19 The Authority will have due regard to any representations duly received under paragraph 7A.18, and give reasons for its decisions in relation to them.
- 7A.20 If, subject to paragraph 7A.8, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOLAR and SOLRAV values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 5B.12 of Special Condition 5B, and in any case, before directing a value for SOMODt under that paragraph.

Part D: Interpretation

- 7A.21 Definitions used in this condition and defined in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further explanation or

elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

Special Condition 7B. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator

Introduction

- 7B.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the licensee's actual SO Totex expenditure in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- 7B.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:
- (a) the value of the term SOMOD as calculated for Relevant Year t for the purposes of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an adjustment of the licensee's Maximum SO Internal Revenue; and
 - (b) appropriate adjustments will be made to the licensee's Regulatory Asset Value (RAV) balance,
- that reflect the licensee's performance under the Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.
- 7B.3 This condition should be read and construed in conjunction with, Special Conditions 5A (Governance of ET1 Price Control Financial Instruments) and 5B.

Part A: SO Totex Incentive Mechanism applicable to the licensee

- 7B.4 The SO Totex Incentive Mechanism ensures that the licensee bears an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Relevant Year, between:
- (a) the licensee's allowed SO Totex expenditure; and
 - (b) the licensee's actual SO Totex expenditure.
- 7B.5 The 'appropriate share' referred to in paragraph 7B.4 of this condition is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).
- 7B.6 SO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the ET1 Price Control Financial Model. The SO Totex Capitalisation Rate set down against the licensee's name in the table at Appendix 1 to this condition is a fixed value, contained in the Price Control Financial Model, that is used in the calculation of SO Totex Incentive Mechanism adjustments.
- 7B.7 This condition provides for the determination and direction of revisions to the two PCFM Variable Values that relate to the licensee's actual SO Totex expenditure. PCFM Variable Values which relate to the licensee's allowed SO Totex expenditure are

specified in other Special Conditions of the licence, and are scheduled in the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

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

7B.8 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) actual controllable opex (SOACO values); and
- (b) actual non-operational capex (SOANC values).

7B.9 Subject to paragraph 7B.10, the Authority will, by 30 November in each Relevant Year t-1:

- (a) determine revised SOACO and SOANC values for Relevant Year t-2; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Relevant Years to which they relate,

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

7B.10 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7B.9 is Relevant Year 2014/15.

7B.11 The Authority may also direct revisions to SOACO and SOANC values for Relevant Years earlier than Relevant Year t-2, where that is necessary to take into account any restatement of, or correction to, Specified Information submitted by the licensee, under any provision of this licence. Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.

7B.12 Where the Authority directs any revised SOACO or SOANC values for Relevant Years earlier than Relevant Year t-2, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

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

7B.13 Subject to paragraph 7B.10 of this condition, revised SOACO and SOANC values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

7B.14 Before issuing any directions under paragraph 7B.13 of this condition the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7B.15 The notice referred to in paragraph 7B.14 will:

- (a) state that any revised SOACO or SOANC values have been determined in accordance with Part B of this condition; and

- (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised SOACO or SOANC values.

7B.16 The Authority will have due regard to any representations duly received under paragraph 7B.15 of this condition, and give reasons for its decisions in relation to them.

7B.17 If, subject to paragraph 7B.10, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOACO and SOANC values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 5B.12 of Special Condition 5B and, in any case, before directing a value for SOMODt under that paragraph.

APPENDIX 1: TOTEX INCENTIVE STRENGTH AND SO TOTEX CAPITALISATION RATES

(see Part A of this condition)

| Licensee | Totex Incentive Strength Rate | SO Totex Capitalisation Rate |
|--------------------------------------------|--------------------------------------|-------------------------------------|
| National Grid Electricity Transmission plc | 46.89% | 27.9% |

Special Condition 7C. Specified financial adjustments – System Operator

Introduction

7C.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
- (b) the Relevant Years to which the revised values referred to in sub-paragraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7C.2 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of Special Condition 4A (Restriction on System Operator Internal Costs) will result in an appropriate adjustment to the licensee's Maximum SO Internal Revenue in a manner that appropriately reflects the licensee's:

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

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

7C.3 This condition should be read and construed in conjunction with Special Conditions 5A and 5B (Governance of ET1 Price Control Financial Instruments).

Part A: SO revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy

7C.4 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) Pension Scheme Established Deficit SO revenue allowances (SOEDE values); and
- (b) Pension Scheme Administration and Pension Protection Fund levy SO revenue allowances (SOAPFE values).

7C.5 Subject to paragraph 7C.6 of this condition, the Authority will, by 30 November in each Relevant Year $t-1$ determine whether any SOEDE values should be revised as a result of:

- (a) a valuation of each pension scheme sponsored by the licensee;

- (b) a review of the valuations referred to in sub-paragraph (a) and of the reasonableness of the licensee's Pension Scheme Established Deficit funding levels; and
- (c) a review of the level of payments actually made by the licensee to its pension scheme,

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

- 7C.6 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.5 of this condition is Relevant Year 2014/15.
- 7C.7 Subject to paragraph 7C.9 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOAPFE values should be revised as a result of a review of the licensee's reported levels of:
- (a) Pension Scheme Administration costs; and/or
 - (b) Pension Protection Fund levy costs,

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

- 7C.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.7 of this condition is Relevant Year 2014/15.
- 7C.9 If the Authority determines under paragraph 7C.5 or 7C.7 that, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook, any SOEDE values or SOAPFE values are to be revised, it will by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOEDE values and SOAPFE values that have been determined and the Relevant Years to which they relate.
- 7C.10 Where the Authority directs any revised SOEDE values or SOAPFE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

Part B: SO tax liability allowances

- 7C.11 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) SO tax liability revenue allowance adjustments in respect of tax trigger events (SOTTE values); and
 - (b) SO tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (SOTGIE values).
- 7C.12 The SOTTE values and SOTGIE values for each Relevant Year are zero as at 1 April 2013.
- 7C.13 Subject to paragraph 7C.14 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOTTE values should be revised as a

result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

- 7C.14 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 7C.13 of this condition is Relevant Year 2013/14.
- 7C.15 Subject to paragraph 7C.16 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOTGIE values should be revised as a result of a review of:
- (a) the licensee's actual level of gearing; and
 - (b) the level of debt interest charges actually incurred by the licensee,
- in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.
- 7C.16 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.15 of this condition is Relevant Year 2014/15.
- 7C.17 If the Authority determines under paragraph 7C.13 or 7C.15 of this condition that, in accordance with the methodologies contained in chapter 4 of the ET1 Price Control Financial Handbook, any SOTTE values or SOTGIE values are to be revised, it will by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOTTE values and SOTGIE values that have been determined and the Relevant Years to which they relate.
- 7C.18 Where the Authority directs any revised SOTTE values or SOTGIE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

Part C: Allowed SO percentage cost of corporate debt

- 7C.19 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed SO percentage cost of corporate debt (SOCDE values).
- 7C.20 Subject to paragraph 7C.22, the Authority will by 30 November in each Relevant Year t-1:
- (a) determine a revised SOCDE value for Relevant Year t and each subsequent Relevant Year in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook; and
 - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOCDE values that have been determined and the Relevant Years to which they relate.
- 7C.21 The Authority may also revise the SOCDE value for a Relevant Year earlier than Relevant Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.
- 7C.22 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.20 of this condition is Relevant Year 2013/14.

7C.23 Where the Authority directs any revised SOCDE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

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

7C.24 Subject to, and in accordance with, the provisions of Parts A, B and C of this condition, revised SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

7C.25 Before issuing any directions under paragraph 7C.24 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7C.26 The notice referred to in paragraph 7C.25 of this condition will:

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

7C.27 The Authority will have due regard to any representations duly received under paragraph 7C.26 of this condition, and give reasons for its decisions in relation to them.

7C.28 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values by 30 November, the Authority will direct the values concerned as soon as reasonably practicable, consistent with the purpose of paragraphs 5B.12 of Special Condition 5B, and in any case, before directing a value for SOMOD_t under that paragraph.

Part E: Interpretation

7C.29 Definitions used in this condition and defined in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

Special Condition 7D. Arrangements for the recovery of SO uncertain costs

Introduction

7D.1 The purpose of this condition is as follows:

- (e) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of Allowed Expenditure (“relevant adjustments”) in relation to the categories set out in paragraph 7D.3 of this condition (each “ uncertain cost category”); and
- (f) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7D.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term $SOMOD_t$ as calculated for Relevant Year t for the purposes of Part B of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an appropriate adjustment to the licensee’s Maximum SO Internal Revenue in a manner that takes account of Allowed Expenditure levels in relation to the uncertain cost categories specified in paragraph 7D.3 of this condition, determined under Part A of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapters 6 and 7 of the ET1 Price Control Financial Handbook.

7D.3 The uncertain cost categories referred to in paragraph 7D.1 of this condition are:

- (a) Enhanced Security Costs; and
- (b) Electricity Market Reform Enduring Solution.

7D.4 This condition should be read and construed in conjunction with Special Condition 5A (Governance of ET1 Price Control Financial Instruments) and Special Condition 5B.

Part A: Proposal and determination of relevant adjustments

7D.5 This Part provides for:

- (g) the proposal of relevant adjustments by the licensee or by the Authority;
- (h) the determination of relevant adjustments by the Authority; and
- (i) the deeming of relevant adjustments in certain circumstances.

Proposal of relevant adjustments

7D.6 Subject to paragraph 7D.9 and 7D.10 of this condition, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant

Years from 2013/14 to 2020/21, provided that the proposed change to Allowed Expenditure:

- (j) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's SO Opening Base Revenue Allowance was derived;
- (k) takes account of any relevant adjustments previously determined under this condition;
- (l) except where the proposed change is in relation to paragraph 7D.10(a) of this condition, in aggregate constitutes a material amount within the meaning of paragraph 7D.7 of this condition;
- (m) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (n) constitutes an adjustment to Allowed Expenditure which cannot be made under the provisions of any other Special Condition of this licence.

7D.7 A material amount is an amount of change to Allowed Expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2 of this condition.

7D.8 A proposal made under paragraph 7D.6 of this condition must include statements setting out:

- (o) the uncertain cost category to which the proposal relates;
- (p) the changes to the licensee's Allowed Expenditure levels that are proposed and the Relevant Years to which those changes relate; and
- (q) the basis of calculation for the changes to the licensee's Allowed Expenditure levels referred to in sub-paragraph (b) of this paragraph.

Application windows for relevant adjustment proposals

7D.9 In relation to relevant adjustment proposals that are not proposals on Electricity Market Reform Enduring Solution, the licensee and the Authority may only propose relevant adjustments during the following application windows:

- (r) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
- (s) the second application window which opens on 1 May 2018 and closes on 31 May 2018.

7D.10 In relation to relevant adjustment proposals on Electricity Market Reform Enduring Solution, the licensee or the Authority may only propose relevant adjustments during the following application windows:

- (a) the first application window which opens on 1 August 2014 and closes on 12 January 2015; and
- (b) the second application window which opens on 1 May 2019 and closes on 31 May 2019. The only relevant adjustments that may be proposed in this window

are those in relation to implementing major scope changes to the Electricity Market Reform Enduring Solution.

7D.11 Relevant adjustments relating to any uncertain cost category may be proposed during any applicable application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 7D.6 to 7D.8 of this condition, to the extent that those paragraphs apply.

Authority's power to determine relevant adjustments

7D.12 Where a proposal has been duly made under paragraph 7D.6 of this condition, the Authority may determine any relevant adjustments that are to be made to the licensee's Allowed Expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate:

- (a) in the case of a proposal on Electricity Market Reform Enduring Solution, made during the first application window under paragraph 7D.10(a) of this condition, by 31 October 2015 (or as soon as reasonably practicable thereafter); and
- (b) in the case of any other proposal, within four months after the close of the relevant application window.

7D.13 In determining any relevant adjustment under paragraph 7D.12 of this condition, the Authority will:

- (t) consult with the licensee and other interested parties;
- (u) have particular regard to the purposes of this condition; and
- (v) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.

7D.14 A determination under paragraph 7D.12 of this condition may confirm, reject, or vary the proposed relevant adjustment.

7D.15 Without limiting the general effect of paragraph 7D.14 of this condition, a determination by the Authority of a relevant adjustment may specify changes to Allowed Expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.

7D.16 The Authority will notify the licensee of any determination made under paragraph 7D.12 of this condition within 14 days of making the determination concerned.

7D.17 Except in relation to a proposal made under paragraph 7D.10(a), if the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 7D.6 of this condition within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to Allowed Expenditure levels for the licensee for Relevant Years specified in the proposal, will be deemed to have been made.

Provisional allowance for Electricity Market Reform Enduring Solution for 2014/15 and 2015/16

7D.18 Without limiting the general effect of paragraphs 7D.14 and 7D.15 of this condition, relevant adjustments to the licensee's levels of Allowed Expenditure in relation to

Electricity Market Reform Enduring Solution for the Relevant Years 2014/15 and 2015/16 are set out in Appendix 3 of this Condition.

Part B: Determination of revisions to PCFM Variable Values

7D.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

- (w) Enhanced Security Costs (SOIAEEPS values); and
- (x) Electricity Market Reform Enduring Solution (SOEMRES values).

7D.20 The Authority will determine whether any PCFM Variable Values should be revised for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.

7D.21 Determinations under paragraph 7D.20 of this condition are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.

7D.22 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year t , the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term $SOMOD_t$ for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term $SOMOD_t$ will be retrospectively affected.

Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs

7D.23 Subject to paragraph 7D.27 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:

- (a) in the case of SOEMRES values:
 - (i) 30 November 2014 (or as soon as is reasonably practicable thereafter), in respect of the relevant adjustment set out in paragraph 7D.18 of this condition;
 - (ii) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the application window set out in paragraph 7D.10(a) of this condition; and
 - (iii) 30 November 2019 (or as soon as is reasonably practicable thereafter), following the application window set out in paragraph 7D.10(b) of this condition.
- (b) in the case of any of any other PCFM Variable Values:
 - (i) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window set out in paragraph 7D.9(a) of this condition; and
 - (ii) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the second application window set out in paragraph 7D.9(b) of this condition.

7D.24 Before issuing any directions under paragraph 7D.23 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7D.25 The notice referred to in paragraph 7D.24 of this condition will:

- (y) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
- (z) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised PCFM Variable Values.

7D.26 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 7D.25 of this condition, and give reasons for its decisions in relation to them.

7D.27 If, for any reason, the Authority does not make a direction required under paragraph 7D.23 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraphs 5B.11 to 5B.13 of Special Condition 5B and, in any case, before directing a value for SOMOD_t under paragraph 5B.12 of that condition.

Part D: Interpretation

7D.28 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further clarification set out in the relevant Regulatory Instructions and Guidance issued by the Authority under Special Condition B15 (Regulatory Instructions and Guidance).

APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 7D.7 of this condition)

| Licensee | Totex Incentive Strength Rate (%) |
|--------------------------------------------|------------------------------------------|
| National Grid Electricity Transmission plc | 46.89 |

APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 7D.7 of this condition)

| Licensee | £m |
|--------------------------------------------|-----------|
| National Grid Electricity Transmission plc | 120.517 |

**APPENDIX 3: PROVISIONAL ALLOWANCE FOR ELECTRICITY MARKET
REFORM ENDURING SOLUTION FOR 2014/15 AND 2015/16**

(see paragraph 7D.18 of this condition)

| Licensee | £m (2009/10 prices) | |
|--------------------------------------------|-------------------------------|-------------------------------|
| | 2014/15 (8 months) | 2015/16 (12 months) |
| National Grid Electricity Transmission plc | 1.72 | 2.57 |

Chapter 8: Other Revenue Restriction Related Conditions

Special Condition 8A. Disapplication of Relevant Special Conditions

Introduction

8A.1 The purpose of this condition is to enable the licensee to make a formal request for the disapplication of the Relevant SO Special Conditions or Relevant TO Special Conditions (in whole or in part) and for such provisions to be disappplied following such a request in the circumstances specified below.

Part A: Conditions are to continue subject to disapplication

8A.2 The Relevant SO Special Conditions or Relevant TO Special Conditions apply for as long as this licence continues in force, but will cease to have effect (in whole or in part, as the case may be) if the licensee serves a Disapplication Request on the Authority in accordance with the provisions of Part B and C below and:

- (a) the Authority agrees in writing to the Disapplication Request; or
- (b) the application of the Relevant SO Special Conditions or Relevant TO Special Conditions (in whole or in part) is terminated by Notice given by the licensee in accordance with the provisions of Part D below.

Part B: Procedure for making a Disapplication Request

8A.3 The licensee may ask the Authority to consent to the disapplication of the Relevant SO Special Conditions or Relevant TO Special Conditions (in whole or in part) by serving a Disapplication Request on the Authority under this condition.

8A.4 A Disapplication Request must:

- (a) be in writing and addressed to the Authority;
- (b) specify to which of the Relevant SO Special Conditions or Relevant TO Special Conditions (or any part or parts of them) the request relates;
- (c) provide a full statement of the licensee's reasons for making the request;
- (d) contain such other information or analysis as the licensee considers sufficient to enable the Authority to fully assess the Disapplication Request; and
- (e) state the date that is proposed by the licensee (which must not be earlier than the appropriate date that is mentioned in Part C below) on and after which the specified Relevant SO Special Conditions or Relevant TO Special Conditions (or part or parts of them) would cease to have effect (the "Disapplication Date").

8A.5 A Disapplication Request served under this condition may be served in respect of a specified geographical area.

- 8A.6 If, within 28 days of a Disapplication Request, the Authority gives notice to the licensee
- (a) specifying further information or analysis that it reasonably considers is required in order to fully assess the Disapplication Request, and

- (b) requests the licensee to provide that information or analysis,

the Disapplication Request shall be treated for the purposes of paragraph 8A.8 of this condition as not served on the Authority until that further information or analysis is provided to the Authority and, if in consequence the Disapplication Date set out in the Disapplication Request no longer complies with paragraph 8A.8 below, the Disapplication Date shall be treated as being the earliest date that would comply with that paragraph.

- 8A.7 The licensee may withdraw a Disapplication Request at any time.

Part C: Date from which a disapplication may take effect

- 8A.8 Except where the Authority otherwise consents, a disapplication following the service of a Disapplication Request may not have effect until a date that is no earlier than 18 months after it is served on the Authority of the Disapplication Request.

Part D: Licensee's right to terminate under a Disapplication Request

- 8A.9 If the licensee has served on the Authority a Disapplication Request that complies with the requirements of Parts B and C of this condition, it may subsequently give the Authority a notice (a "Disapplication Notice") that terminates the application of some or all of the provisions of this Licence specified in that request:

- (a) in the circumstance described in Part E; or
- (b) in the circumstance described in Part F,

but in either case the Disapplication Notice may not take effect before the Disapplication Date or such earlier date to which the Authority may have consented under Part C.

Part E: Termination without involvement of the Competition Commission

- 8A.10 The circumstance referred to in paragraph 8A.9(a) above is that by the beginning of the period of [six] months that would end on the Disapplication Date, the Authority has not in response to the Disapplication Request published a decision under section 11A(7) of the Act to modify:

- (a) the Relevant SO Special Conditions or Relevant TO Special Conditions (or any part or parts of them) to which the Disapplication Request applies; or
- (b) this Condition so as to remove the licensee's right to give the Authority a Notice under paragraph 8A.9 in respect of the relevant Disapplication Request.

Part F: Termination after involvement of the Competition Commission

8A.11 The circumstance referred to in paragraph 8A.9(b) above is that the Authority has published a decision as described in paragraph 8A.10(a) or 8A.10(b) above and:

- (a) the licensee has exercised its right to appeal to the Competition Commission against that decision of the Authority as provided for by section 11C of the Act;
- (b) the Competition Commission, acting under section 11F of the Act, has, in respect of the provision to which the Disapplication Notice relates: (i) quashed the Authority's decision, and (ii) neither remitted the matter back to the Authority under section 11F(2)(b) of the Act nor substituted its own decision for that of the Authority's under section 11F(2)(c) of the Act; and
- (c) no more than 30 days have elapsed since the date on which the Competition Commission quashed the decision in the circumstances described in paragraph 8A.11(b) above.

Special Condition 8B. Services treated as Excluded Services

Introduction

- 8B.1 The purpose of this condition is to set out the basis on which certain services provided by the licensee may be treated as Excluded Services under the Special Conditions.
- 8B.2 Excluded Services are services that conform with the General Principle set out at Part B below and that include, without limitation, those services listed at paragraph 8B.10 of this condition.
- 8B.3 Revenue derived by the licensee from the provision of Excluded Services is excluded from the calculation of the Maximum Revenue formula.

Part A: Structure of this condition

- 8B.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the licensee are to be treated as Excluded Services.
- 8B.5 Part C of this condition sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services.
- 8B.6 Part D of this condition provides for the Authority to give directions in respect of services provided by the licensee that are to be treated as Excluded Services. It also provides for the Authority to direct that any service provided by the licensee should not be treated as an Excluded Service.

Part B: Statement of General Principle

- 8B.7 The General Principle is that a service provided by the licensee as part of its Transmission Business Activities is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 8B.8 of this condition.
- 8B.8 The charges referred to in paragraph 8B.7 of this condition are:
- (a) Transmission Network Charges, under the provisions of Special Condition 3A (Restriction of Transmission Network Revenue);
 - (b) Internal balancing services activity charges, under the provisions of Special Condition 4A (Restriction of System Operator Internal Revenue);
 - (c) External balancing services activity charges, under the provisions of Special Condition AA5A (Balancing Services Activity Revenue Restriction); and
 - (d) Charges arising from any activity carried out under any provision the provisions of Special Condition 3I (Network Innovation Competition) which results in Returned Royalty Income for the licensee as defined in that condition.

Part C: Categories of Excluded Services

8B.9 The descriptions of categories of Excluded Services set out at paragraph 8B.10 of this condition are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGs issued by the Authority under Standard Condition B15 (Regulatory Instructions and Guidance) of this licence.

8B.10 Subject to Part D of this condition, Excluded Services will include, but are not limited to, the following services:

ES1. Connection services: This category consists of the carrying out of works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain electric lines, electrical plant, or meters necessary to provide any new connection or modify any existing connection to the licensee's Transmission System, (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 8B.8 of this condition).

ES2. Diversionary works under an obligation: This category consists of the relocating of any electric line or electrical plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9(2) (General duties of licence holders) of the Act, where the statutory obligation makes provision for the reimbursement of the costs incurred.

ES3. Works required by any alteration of premises: This category consists of the moving of any electric line or electrical plant that forms part of the licensee's Transmission System to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.

ES4. Telecommunications and information technology infrastructure services: This category consists of allowing the use of any electric line or electrical plant that forms part of the licensee's transmission system to carry, either directly or indirectly (including by the incorporation of third party equipment), electronic information and data.

ES5. Miscellaneous: This category consists of the provision of any other service (including the provision of electric lines or electrical plant) that:

- (a) is for the specific benefit of any third party who requests it; and
- (b) is not made available by the licensee as a normal part of the activities of its Transmission Business Activities.

Part D: Authority's power to give directions

8B.11 Where the Authority (having regard to the General Principle) is satisfied:

- (a) that any service treated by the licensee as an Excluded Service should not be so treated; or
- (b) that any service not treated by the licensee as an Excluded Service should be so treated,

it may issue to the licensee a direction to that effect.

8B.12 Where a direction is given under paragraph 8B.11 of this condition, the licensee must, in accordance with the direction, either:

- (a) stop treating the service or services specified in the direction as Excluded Services; or
- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

Special Condition 8C. Not used

Chapter 9: Schedules

Schedule A to Special Condition AA5A: Supplementary Provisions of the Charge Restriction Conditions

PART A

5. Not used.

PART B

Terms used in the balancing services activity revenue restriction

B1. For the purpose of paragraph 8 of Part 2(i) of special condition AA5A (Balancing Services Activity Revenue Restriction), the terms MT_p , SF_p and CB_p shall be selected against the appropriate value of IBC_p (which shall be determined in accordance with paragraph 9 of special condition AA5A) from the following table:

| IBC_p (£million) | MT_p (£million) | SF_p | CB_p (£million) |
|---------------------------------------------------------------------------------|-------------------------------------|--------------------------|-------------------------------------|
| $IBC_p <$ (Incentive Target Cost – 205) | 0 | 0 | 50 |
| (Incentive Target Cost – 205) $\leq IBC_p <$ (Incentive Target Cost – 05) | Incentive Target Cost – 5 | 25% | 0 |
| (Incentive Target Cost – 5) $\leq IBC_p <$ (Incentive Target Cost + 5) | IBC_p | 0 | 0 |
| (Incentive Target Cost + 5) $\leq IBC_p <$ (Incentive Target Cost + 205) | Incentive Target Cost + 5 | 25% | 0 |
| $IBC_p \geq$ (Incentive Target Cost + 205) | 0 | 0 | 50 |

For the purposes of this paragraph B1, Incentive Target Cost (in £ million) in respect of period p shall be calculated in accordance with the following formula:

$$\text{Incentive Target Cost}_p = \text{Modelled Target Costs}_p + \text{BSTC}_p$$

Where:

Modelled Target Costs_p means the target cost (in £ million) to the licensee of procuring and using balancing services (being the external costs of the balancing services activity) derived in accordance with the methodologies referred to in paragraph B2 below. The models and data used by the licensee to determine Modelled Target Costs as agreed between the Authority and the licensee in respect of period p; and

BSTC_p means the target cost for the licensee for black start in respect of period p, which shall have the value of £40 million.

In respect of any period commencing on or after 1 April 2013, the terms MT_p , SF_p and CB_p shall be set to zero.

B2. (a) The licensee shall, in respect of period p, establish the following methodologies for determining Modelled Target Costs and the transmission losses reference price (TLRP for the purposed of paragraph B3 below) and such methodologies as approved by the Authority:

- a methodology for determining the ex-ante or ex-post treatment of modelling inputs;
- a methodology for the modelling of constraint costs; and
- a methodology for the modelling of energy costs.

(b) If the licensee considers that any modification of one or more of the methodologies referred to in sub-paragraph B2(a) is required to more closely reflect the efficient level of costs to the licensee of procuring and using balancing services, the licensee will review the methodologies prepared pursuant to sub-paragraph B2(a) and promptly seek to establish any revised methodology or methodologies required to

effect the required modification and such revised methodology or methodologies shall be approved by the Authority.

- (c) Except where the Authority directs otherwise, before any revision of any methodology referred to in sub-paragraph B2(a) the licensee shall, pursuant to paragraph B2(b):
- (i) send a copy of the proposed revisions to the Authority and to any person who asks for one;
 - (ii) consult BSC parties on the proposed revisions and allow them a period of not less than 28 days in which to make representations (“the consultant period”);
 - (iii) submit to the Authority within seven (7) days of the close of the consultation period setting out:
 - the revision originally proposed;
 - the representations (if any) made to the licensee;
 - any changes to the revisions; and
 - (iv) where the Authority directs that any of sub-paragraphs (i), (ii) and/or (iii) not apply, comply with such other requirements as are specified in the direction.
- (d) The licensee shall not revise any methodology referred to in paragraph B2(a) until after the expiry of 28 days from the date on which the Authority receives the report

referred to in sub-paragraph B2(c)(iii) unless prior to such date the Authority either:

- (i) directs the licensee to make the revisions on an earlier date; or
 - (ii) directs the licensee not to make the revision.
- (e) The licensee shall publish (in such manner as the Authority may approve from time to time) the methodologies prepared pursuant to sub paragraph B2(a) and any revision thereof.

B3. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A (Balancing Services Activity Revenue Restriction), the term $TLIC_p$ shall be calculated in accordance with the following formula:

$$TLIC_p = 0 \text{ when } -0.6TWh < \sum_{jp} (TL_j - TLT_j) < 0.6TWh$$

$$TLIC_p = \left(\sum_{jp} [TL_j - TLT_j] + 0.6TWh \right) \times TLRP \text{ when}$$

$$\sum_{jp} [TL_j] < \left(\sum_{jp} [TLT_j] - 0.6TWh \right)$$

otherwise:

$$TLIC_p = \left(\sum_{jp} [TL_j - TLT_j] - 0.6TWh \right) \times TLRP$$

where:

TL_j which is the volume of transmission losses, is given by the sum of BM unit metered volumes (as from time to time defined in the BSC) during the settlement period j for all BM units (as from time to time defined in the BSC), being the difference between the quantities of electricity delivered to the GB transmission system and the quantity taken from the GB transmission system during that settlement period;

$TLRP$ which is the transmission losses reference price, shall in respect of each settlement period during relevant year p have the value derived in

accordance with the methodology for the modelling of energy costs established pursuant to paragraph B2;

TLT_j which is the target volume of transmission losses, shall in respect of each settlement period during period p be calculated in accordance with the following formula:

$$TLT_j = \frac{TLT_p}{SP_p}$$

j shall mean a settlement period (being half an hour) as defined in the BSC.

where:

TLT_p is the target volume of transmission losses in period p, shall have the value in megawatt hours of 8,900,000:

SP_p is the total number of settlement periods in period p.

B4. Not used.

B5. For the purpose of paragraph 15B of Part 2(ii) of special condition AA5A, the term CSF_{Mt} shall have the value in respect of each month M of relevant year t:

(a) $CSF_{Mt} = 0.4$ when $0 \leq \left[0.4 CP_{Mt} \right] < \left[\pounds 250,000 \left(1 + \frac{IRPI_t}{100} \right) \right]$

(b) $CSF_{Mt} = 0$ otherwise

where:

IRPI_t shall have the meaning ascribed to it in paragraph 15A of special condition AA5A.

B6. For the purposes of paragraph 15B of Part 2(ii) of special condition AA5A, the term OS_{Mt} shall have the value in respect of each month M of relevant year t:

(i) $OS_{Mt} = 0$ when $CSF_{Mt} > 0$

(ii) $OS_{Mt} = \pounds 250,000 \left(1 + \frac{IRPI_t}{100} \right)$ when $CSF_{Mt} = 0$

IRPI_t shall have the meaning ascribed to it in paragraph 15A of special condition AA5A

B7. For the purposes of paragraph 15B of Part 2(ii) of special condition AA5A, the terms IUSF_t and IDSF_t in respect of relevant year t shall be derived from the following tables:

| | Relevant year | | | | | |
|-------------------|----------------------|---------|---------|---------|---------|---------|
| Variable | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| IUSF _t | 0.2 | 0.25 | 0.25 | 0.15 | 0.25 | 0.25 |

| | Relevant year | | | | | |
|-------------------|----------------------|---------|---------|---------|---------|---------|
| Variable | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| IDSF _t | 0.2 | 0.25 | 0.15 | 0.15 | 0.25 | 0.25 |

Schedule B: Not used