

To: The Company Secretary
The National Grid Company plc (Company number:2366977)
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

MODIFICATION OF ELECTRICITY TRANSMISSION LICENCE PURSUANT TO SECTION 11 OF THE ELECTRICITY ACT 1989

Whereas:

1. The National Grid Company plc ("the Licensee") is the holder of a licence ("the Licence") granted under section 6(1)(b) of the Electricity Act 1989 ("the Act") to transmit electricity for the purpose of giving a supply to any premises or enabling a supply to be so given in its authorised area for the term and upon the conditions specified in the Licence.
2. Pursuant to section 11 of the Act, the Gas and Electricity Markets Authority ("the Authority") gave notice on Wednesday 19 November 2003 that it proposed to modify Special Conditions AA5, AA5A and AA5C of the Licence.
3. The Authority gave notice to the Secretary of State of its intention to make the modification and did not receive from her a direction not to make the modification;
4. The Authority has considered representations or objections in relation to the proposed modification made to it and not withdrawn;
5. The Licensee has given its consent to the said modification;

Now in accordance with the powers contained in section 11(1) of the Act and with the consent of the Licensee, the Authority hereby modifies the Licence in the manner specified in the attached annex with effect on and from 1 April 2004.

Dated 19 December 2003

The Official Seal of the Authority affixed
to this modification is authenticated by:
Sonia Brown
Director, Trading Arrangements



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Duly authorised in that behalf by the Authority

The Annex

A. Special Condition AA5 shall be amended by the substitution of the following text:

“Special Condition AA5: Revenue Restriction Conditions: Definitions

1. In this special condition, and in special conditions AA5A to AA5E inclusive and in Schedule A:

“acceleration repayment” means any payment from the licensee to a user representing repayment of part of that user’s accelerated depreciation and land charges which has become payable to the user as a consequence of a change to the licensee’s connection charging methodology made on 1 April 2004.

“annual legacy asset payment” means the sum of all payments in a financial year associated with a legacy asset made by the licensee to a user.

“asset age” means the difference between the relevant year t and the year in which the asset was provided.

“average specified rate” Means the average of the daily base rates of Barclays Bank PLC current from time to time during the period in respect of which any calculation falls to be made.

“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 Parts 2(i) and (ii) of special condition AA5A, and Part B of Schedule A , together with such parts of special conditions AA5B, AA5C, AA5D and AA5E inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11, 14 or 15 of the Act.
“excluded services”	means those services provided by the licensee as part of its transmission business which in accordance with the principles set out in Part A of Schedule A fall to be treated as excluded services.
“legacy assets”	Means any asset or portion of asset for which a user has paid capital contributions or termination charges prior to 1 April 2004 where such assets are, following that date, charged for via use of system charges as a consequence of a change to the licensee’s connection charging methodology made on 1 April 2004.

<p>“maximum revenue”</p>	<p>means the revenue calculated in accordance with the formula in Part 1 of special condition AA5A.</p>
<p>"New Electricity Trading Arrangements" or "(NETA)"</p>	<p>Means the wholesale electricity trading arrangements in England and Wales introduced by the Secretary of State under the Utilities Act 2000.</p>
<p>“non-domestic rates”</p>	<p>Means non-domestic rates payable by the licensee in respect of hereditaments (other than excepted hereditaments being a hereditament consisting of or comprising premises used wholly or mainly:</p> <ul style="list-style-type: none"> <li data-bbox="829 1321 1361 1624">(a) as a shop or other place for the sale, display or demonstration of apparatus or accessories for use by consumers of electricity (any use for receipts of payments for the use of electricity being disregarded); <li data-bbox="829 1635 1361 1825">(b) as office premises of the licensee where those premises are not situated on operational land of the licensee; or <li data-bbox="829 1836 1361 2040">(c) for both of the foregoing purposes (for the avoidance of doubt, office premises and operational land shall have the meaning ascribed to those

terms in SI 2000/525 Central
Ratings List (England) Regulations))

wholly or mainly used for the purposes of the transformation or transmission of electrical power, or for ancillary purposes.

“relevant period t”

means that period for the purposes of which any calculation falls to be made commencing on the effective time and ending on 31 March 2002 and thereafter shall have the same meaning as “relevant year t”.

“relevant year”

means a financial year commencing on or after 1 April 1990.

“relevant year t”

means that relevant year for the purposes of which any calculation falls to be made; “relevant year t-1” means the relevant year preceding relevant year t, and similar expressions shall be construed accordingly.

“remote transmission asset rentals”

means any rent or other periodic payment receivable by the licensee from an authorised electricity operator under an agreement relating to remote

transmission assets.

“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 Part 1 of special condition AA5A, and Part A of Schedule A and such parts of special condition AA5 and special conditions AA5B to AA5E inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11, 14 or 15 of the Act.

“user maintenance” means maintenance by a user of connections in operation before the grant of this licence

2. In this special condition and in special conditions AA5A to AA5E inclusive and Schedule A, 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.
3. Any term used in a formula appearing in special conditions AA5A to AA5E inclusive and Schedule A and defined for the purpose of that formula shall have the same meaning if used in any other formula in those special conditions.

4. In this special condition and in special conditions AA5A to AA5E and Schedule A, any cost, charge, payment or amount may either be positive or negative.”

B. Special Condition AA5A, Part 1, shall be amended by the substitution of the following text:

“Special Condition AA5A: Revised Restrictions on Revenue

Nothing in this text alters the operation of part 2 of this special condition (paragraphs 5 – 12 inclusive which are not reproduced)

Part 1

1. The Transmission Network Revenue Restriction

The licensee shall use its best endeavours to ensure that in any relevant year the revenue from its transmission network services shall not exceed the maximum revenue, which shall be calculated in accordance with the following formula:

$$M_t = \left[1 + \frac{RPI_t - X_g}{100} \right] P_{t-1} - D_t - K_t + G_t + U_t + CCC_t + LPC_t + LPR_t$$

where:

M_t means the maximum revenue in relevant year t.

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index published or determined with respect to each of the six months

from May to October (both inclusive) in relevant year t-1 and that are published or determined with respect to the same months in relevant year t-2.

X_g has the value one and a half (1.5).

P_{t-1} means the amount derived from the following formula:

$$P_{t-1} = P_{t-2} \left[1 + \frac{RPI_{t-1} - X_g}{100} \right]$$

save that:

- (i) in relation to the relevant year commencing on 1 April 2001 P_{t-1} shall have a value equal to £785,400,000;
- (ii) in relation to the relevant year commencing on 1 April 2002 P_{t-2} shall have that value; and
- (iii) in relation to the relevant year commencing on 1 April 2003 P_{t-2} shall have the value derived from the following formula:

$$P_{t-2} = P_{t-3} \left[1 + \frac{RPI_{t-2} - X_g}{100} \right]$$

where:

P_{t-3} shall have the value derived from the following formula:

$$P_{t-3} = \text{£}785,400,000 \left[\frac{w}{Y} \right]$$

where:

W is the arithmetic average of the Retail Price Index published or determined with respect to each month of the relevant year commencing on 1 April 2001 on the assumption that the Retail Price Index for January 1987 equals 100.

Y is 175.17 (being the forecast of the Retail Price Index prepared by Business Strategies Limited in December 2000 in respect of the relevant year commencing on 1 April 2001 on the assumption that the Retail Price Index for January 1987 equals 100).

D_t means a correction factor to be applied to transmission network revenue and is equal to the value of user maintenance in relevant year t .

K_t means the correction factor (whether of a positive or negative value) which is derived from the formula in paragraph 2.

- G_t means a revenue adjustment factor derived from the formula in paragraph 3.
- U_t means a revenue adjustment factor reflecting changes in non-domestic rates and the licence fee, and is derived from the formula given in paragraph 4.
- CCC_t means a revenue adjustment factor reflecting the difference between the reference level of excluded services revenue income in relevant year t as forecast when the price control was initially set and actual excluded services income in relevant year t, and is derived from the formula given in paragraph 4A.
- LPC_t means a revenue adjustment factor reflecting the depreciation allowance and rate of return on legacy assets in relevant year t, and is derived from the formula given in paragraph 4B.
- LPR_t means a revenue adjustment factor which is equal to the sum of all acceleration repayments made to users in relevant year t, save that in the case of the relevant years commencing on 1 April 2001, 1 April 2002, and 1 April 2003 LPR_t shall have a value equal to zero (0).

2. For the purpose of paragraph 1, the term K_t (being the correction factor to be applied to transmission network revenue for the relevant year t) shall be derived from the following formula:

$$K_t = (C_{t-1} - M_{t-1}) \left(1 + \frac{I_t}{100} \right)$$

where:

C_{t-1} means, subject to paragraph 3 of special condition AA5B, the transmission network revenue in relevant year t-1 provided that in calculating C_{t-1} for the purpose of K_t no account shall be taken of any positive or negative revenue in respect of the provision of transmission network services in any relevant year preceding t-1 other than such revenue as it is in the reasonable opinion of the Authority reasonable and appropriate to take into account.

M_{t-1} means the maximum revenue in relevant year t-1.

I_t means the interest rate in relevant year t which is equal to, where K_t (taking no account of I for this purpose) has a positive value and the transmission network revenue in relevant year t-1 exceeds the maximum revenue in relevant year t-1 by more than 2 percent, the average specified rate plus 4 or, where K_t (taking no account of I for this purpose) has a negative value or the transmission network revenue in relevant year t-1 does not exceed the maximum revenue in relevant year t-1 by more than 2 percent, the average specified rate.

3. For the purpose of paragraph 1, the term G_t (being the revenue adjustment associated with the commissioning of new generating plant to be applied to transmission network revenue for the relevant year t) shall be calculated according to the following formula:

$$G_t = A_t [GW_t]$$

where:

A_t is given by the following formula

$$A_t = ce_t [R_t + Dep_t]$$

where:

ce_t which represents the capital expenditure per gigawatt of capacity of new generation or interconnector(s) capacity using the licensee's transmission system, is given by the following formula:

$$ce_t = ce_{t-1} \left[1 + \frac{RPI_t}{100} \right]$$

Where for the relevant year commencing on 1 April 2001 ce_{t-1} shall have a value determined by the following formula:

$$ce_{t-1} = \text{£}23,000,000 \left[1 + \frac{RPI_{t-1}}{100} \right]$$

R_t has the value six point two five (6.25) percent and is the licensee's allowed rate of return.

Dep_t has the value two point five (2.5) percent and is the licensee's allowed cost of depreciation.

GW_t is given by the following formula:

$$GW_t = GWfor_t - GWref_t$$

where:

$$GWfor_t = GWout_t + GWexp_t$$

GW_{out,t} is the sum of all capacities in gigawatts of those generation sets and interconnector(s) additional to those capacities under construction at 1 January 2000 which have commenced using the licensee's transmission system between 1 April 2001 and 31 December in the year t-1, save that in the case of the relevant year commencing on 1 April 2001 GW_{out,t} equals zero.

GW_{exp,t} is the sum of all capacities in gigawatts of those generation sets and interconnector(s) additional to those capacities under construction at 1 January 2000 which have not commenced but which are expected to commence using the licensee's transmission system between 1 January in the year t-1 and 31 March in the year t+1, save that in the case of the relevant year commencing 1 April 2001 GW_{exp,t} is the sum of all such capacities in gigawatts of those generation sets and interconnector(s) additional to those capacities under construction at 1 January 2000 which have not commenced but are expected to commence using the licensee's transmission system between 1 April 2001 and 31 March 2003.

GW_{ref,t} represents the reference level of generation set and interconnector(s) capacity commissioning between 1 April 2001 and 31 March in year t+1, and has the value for relevant year t given against that year in the following table:

Relevant Year t commencing on 1 April	2001	2002	2003	2004	2005
GW_{ref,t}	0.6	1.7	3.4	4.5	5

4. For the purpose of paragraph 1, the term U_t (being the revenue adjustment for the relevant year t reflecting changes in non-domestic rates and the licence fee) shall be derived from the following formula:

$$U_t = [\text{Rate}_t + L_t] \left(1 + \frac{I_t}{100} \right)$$

where:

Rate_t is the difference between the non-domestic rates payable by the licensee in respect of year $t-1$ (being for the avoidance of doubt, £Million, in money of the day) and the amount set against relevant year $t-1$ in the following table:

Relevant Year t commencing on 1 April	2001	2002	2003	2004	2005
Rate_t £Million	100.2	99.4	96.5	98.3	102.7

Save that in the case of relevant year commencing on 1 April 2001 Rate_t shall have a value equal to zero (0).

L_t is the difference between the licence fee payable by the licensee in year $t-1$ pursuant to standard condition 4 (being for the avoidance of doubt, £Million in money of the day) and the amount set against the relevant year $t-1$ in the following table:

Relevant Year t	2001	2002	2003	2004	2005
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commencing on 1 April					
L_t £Million	7.6	7.8	8.0	8.1	8.3

Save that in the case of relevant year commencing on 1 April 2001 L_t shall have a value equal to zero (0).

- 4A. For the purpose of paragraph 1, the term CCC_t (being the revenue adjustment factor reflecting the difference between the reference level of excluded services revenue income in year t as forecast when the price control was initially set and actual excluded services income in year t) shall be derived from the following formula:

$$CCC_t = \left[1 + \frac{RPI(ES)_t}{100} \right] ES_{ref_t} - ES_t$$

where:

RPI(ES)_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index published or determined with respect to each of the six months from May to October (both inclusive) in relevant year t-1 and that are published or determined with respect to the same months in relevant year commencing 1 April 1999.

ES_t is the actual excluded services revenue for the relevant year t.

ES_{ref_t} represents the reference level of excluded service revenue and has the value for relevant year t given against that year in the following table:

Relevant Year t commencing on 1 April	2004	2005
ESref _t	116	121

Save that in the case of the relevant years commencing on 1 April 2001, 1 April 2002, and 1 April 2003 CCC_t shall have a value equal to zero (0).

- 4B. For the purpose of paragraph 1, the term LPC_t (being the revenue adjustment factor reflecting the depreciation allowance and rate of return on legacy assets in relevant year t) shall be derived from the following formula:

$$LPC_t = \sum_{j=1}^{j=J} Lpc_{t,j,T}$$

where:

J is the total number of annual legacy asset payments which have been made in all years up to and including relevant year t.

Year T is the relevant year t of an annual legacy asset payment.

$Lpc_{t,j,T}$ means the revenue adjustment reflecting the depreciation allowance and rate of return in respect of annual legacy asset payment j in relevant year t for an annual legacy asset payment originally made in year T.

In year $t = T$ $Lpc_{t,j,T}$ shall be calculated as:

$$Lpc_{t,j,T} = \left[\frac{2.5(B_{j,T})}{100} + \frac{6.25(N_{j,T})}{100} \right]$$

In all subsequent years where asset age is less than forty (40),
Lpc_{t,j,T} shall be calculated as:

$$Lpc_{t,j,T} = \left(\prod_{T+1}^t \left(1 + \frac{RPI_t}{100} \right) \right) \left[\frac{2.5(B_{j,T})}{100} - \left(\frac{1.5625(B_{j,T})}{1000} \right) (n) + \frac{6.25(N_{j,T})}{100} \right]$$

where:

B_{j,T} shall be calculated as:

$$B_{j,T} = \left[\frac{40(\text{annual legacy asset payment } j \text{ in year } T)}{(40 - \text{asset age in year } T \text{ for the asset related to annual legacy asset payment } j)} \right]$$

N_{j,T} shall be calculated as:

$$N_{j,T} = \left[\frac{2(\text{annual legacy asset payment } j \text{ in year } T) - \frac{2.5B_{j,T}}{100}}{2} \right]$$

n is the difference in years between year t and year T.

RPI_t shall have the same meaning as in paragraph 1 of this condition.

Save that:

- (a) in the case of the relevant years commencing on 1 April 2001, 1 April 2002, and 1 April 2003 LPC_t shall have a value equal to zero (0); and
- (b) no assets may be included in the calculation of LPC_t that have an asset age greater than 40."

C. Special Condition AA5C shall be amended by the substitution of the following text:

“Special Condition AA5C: Information to be Provided to the Authority in Connection with the Transmission Network Revenue Restriction

1. Where the licensee is intending to make any change in charges for the provision of Transmission network services, the licensee shall not later than the time of publication of such change provide the Authority with:
 - (a) a written forecast of the maximum revenue, together with its components, in respect of the relevant year t in which such change is to take effect and in respect of the next following relevant year $t + 1$;
 - (b) a written estimate of the maximum revenue, together with its components, in respect of the relevant year $t - 1$ immediately preceding the relevant year in which the change is to take effect, unless a statement complying with paragraph 5 in respect of relevant year $t - 1$ has been furnished to the Authority before the publication of the proposed change;
 - (c) a written forecast of the value of D_t ;
 - (d) a written forecast of the value of CCC_t ;
 - (e) a written forecast of the value of LPC_t and $B_{j,T}$ and $N_{j,T}$ for assets where relevant year $t = T$; and
 - (f) a written forecast of the value of LPR_t .

2. If within three months of the commencement of any relevant year t the licensee has not made any such change in charges as is referred to in paragraph 1, the licensee shall provide the Authority with a written forecast of the maximum revenue, together with its components, in respect of that relevant year t .
3. Any forecast or estimate provided in accordance with paragraph 1 or 2 shall be accompanied by such information as regards the assumptions underlying the forecast or estimate as may be necessary to enable the Authority to be satisfied that the forecast or estimate has been properly prepared on a consistent basis.
4. Not later than six weeks after the commencement of any relevant year t , the licensee shall send the Authority a statement as to:
 - (a) Whether or not the provisions of special condition AA5B are likely to be applicable in consequence of the transmission network revenue in the preceding relevant year $t-1$ or the two preceding relevant years $t-1$ and $t-2$; and
 - (b) Its best estimate as to the relevant correction factor K_t to be applied in calculating the maximum revenue in respect of the relevant year t .
5. Not later than three months after the end of a relevant year the licensee shall send the Authority a statement, in respect of that relevant year:
 - (a) Containing the information relating to the amount of the licensee's allowed security costs, the aggregate amounts charged on account of the licensee's allowed security costs and the bases and calculations underlying the increases in charges made by the licensee in respect of

transmission network services together with an explanation of the basis of attribution of allowed security costs in respect of transmission network services referred to in paragraph 5 of special condition AA5D;

- (b) Specifying the nature of all services provided as part of its transmission business and treated as excluded services by the licensee, together with a statement of the revenues derived by the licensee from each service so treated
- (c) Stating whether there were connections subject to user maintenance and quantifying the value of user maintenance;
- (d) Stating the actual outcome of the value of CCC_t ;
- (e) Stating the actual outcome of the value of LPC_t and the values of $B_{j,T}$ and $N_{j,T}$ for assets where relevant year $t = T$; and
- (f) Stating the actual outcome of the value of LPR_t broken down into all its component parts.

6. The statement referred to in the preceding paragraph shall be:

- (a) accompanied by a report from the Auditors that in their opinion (i) such statement fairly presents the amount of the allowed security costs, the aggregate amounts charged on account of such allowed security costs,

the bases and calculations underlying the increases in charges together with the basis of attribution of such costs, the transmission network revenue, the nature of the services treated as excluded services and the revenues attributable thereto, and the value of user maintenance, and the value of CCC_t and the value of LPC_t , and the values of $B_{j,T}$ and $N_{j,T}$ for assets where relevant year $t = T$, and the value of LPR_t , and (ii) the amounts of the allowed security costs, the aggregate amounts charged on account of the allowed security costs, the transmission network revenue, the revenue from excluded services, the value of user maintenance shown in such statement, the value of CCC_t , the value of LPC_t , the values of $B_{j,T}$ and $N_{j,T}$ for assets where relevant year $t = T$ and the value of LPR_t are in accordance with the licensee's accounting records which have been maintained in accordance with standard condition 5; and

- (b) certified by a Authority of the licensee on behalf of the licensee that to the best of his knowledge, information and belief having made all reasonable enquiries:
- (i) there is no amount included in its calculations of allowed security costs under special condition AA5D which represents other than an amount permitted under this Condition to be so included; and
 - (ii) no service has been treated as an excluded service other than a service permitted to be so treated in accordance with Part A of Schedule A; and
 - (iii) no amount included in the revenues stated in respect of excluded services represents other than bona fide consideration for the provision of the excluded service to which it relates;

- (iv) the value which the licensee has attributed to D_t takes into account all user maintenance in that relevant year, whether agreed or determined (or, where neither agreed nor determined, properly estimated); and

- (v) amounts included in LPC_t are bona fide considerations and do not include considerations for assets which have been fully depreciated.”