

Modification of NGC's transmission licence

Direction to modify NGC's transmission licence

In accordance with the powers contained in section 11(1) of the Electricity Act 1989 ("the Act") and with the consent of National Grid Company plc ("NGC"), the Gas and Electricity Markets Authority ("the Authority") has directed a modification to the transmission licence treated as granted to NGC under section 6(1)(b) of the Act with effect on and from 1 April 2004. The direction to modify the licence was issued by the Authority to NGC on 29 March 2004. This explanatory note constitutes the notice by the Authority under Section 49A of the Electricity Act 1989 in relation to the direction.

Background

On 25 February 2004 the Authority gave notice pursuant to section 11(2) of the Act that the Authority was proposing to modify the conditions of NGC's transmission licence. The notice highlighted that it was the Authority's intention that the proposed modification to the transmission licence will apply from 1 April 2004.

The Authority proposed to modify the Licence by amending or inserting therein (as the case may be) conditions and schedule provisions numbered and entitled:

- (a) Special condition AA5A (paragraphs 5 – 12 inclusive)
- (b) Special condition AA5E; and
- (c) Schedule A, Part B

in substitution for the existing conditions and schedule provisions with the same name and numbers.

The section 11(2) notice stated the proposed modifications and their effect and the reasons why the Authority proposed the modifications. The notice invited any representations or objections with respect to the proposed modifications to be made by 24 March 2004.

The Authority received and has considered representations or objections made to it and not withdrawn. The proposed modifications to the transmission licence remain unchanged following the Authority's consideration of the representations or objections received.

Consequently, having regard to the representations made to the Authority, for the reasons set out in the section 11(2) notice the Authority has directed that the modifications described above shall be made to NGC's transmission licence with effect from 1 April 2004. The modified conditions and schedule provisions are included in Annex 1 for reference.

Relevant information

Copies of the section 11(2) notice and the proposed modifications are available in Appendix 1 and 2 respectively of the following document, 'NGC System Operator incentive scheme from April 2004, Proposals and statutory licence consultation', Ofgem, February 2004, which can be found at the following address:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/6060_3904.pdf

Annex A

NGC SO Incentives 2004-05

Modifications to the Transmission Licence of National Grid Company plc which shall take effect on 1 April 2004 by virtue of a direction to modify the licence issued by the Authority on 29 March 2004

Special Condition AA5A: Revised Restrictions on Revenue

Part 1

No amendments are proposed to paragraphs 1 – 4 inclusive of this Special Condition.

Nothing in this text alters the operation of Part 1 of this Special Condition (paragraphs 1-4 inclusive).

Part 2 (i): Balancing services activity revenue restriction on external costs

5. The licensee shall use its best endeavours to ensure that in the relevant period 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:

$$BXext_t = CSOBM_t + BSCC_t + ET_t - OM_t + IncPayExt_t$$

where:

$BXext_t$ which represents the maximum allowed revenue derived in relevant period t from and associated with procuring and using balancing services, is the aggregate of the following components:

$CSOBM_t$ which represents the cost to the licensee of bids and offers in the balancing mechanism accepted by the licensee in relevant period t less the total non-delivery charge for that period, is the sum across relevant period t of the values of $CSOBM_j$

(being the daily system operator BM cashflow as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001);

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

ET_t means the amount of any adjustment to be made during the relevant period t in respect of a previous relevant year as provided in paragraph 6;

OM_t means an amount representing the revenue from the provision of balancing services to others during relevant period t , calculated in accordance with paragraph 7;

$IncPayExt_t$ means an incentive payment for relevant period t calculated in accordance with paragraph 8.

6. Balancing services activity adjustments

For the purposes of paragraph 5, the term ET_t which relates to prior year adjustments in respect of the relevant period t shall mean:

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

- bids and offers in the balancing mechanism accepted by the licensee in any relevant year before relevant period t less the total non-delivery charge for the period; and
- contracts for the availability or use of balancing services during any relevant year before relevant period t , excluding costs within $CSOBM_t$ for any relevant year, but including charges made by the licensee for the provision of balancing services to itself in any relevant year before relevant period t

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.

7. Provision of balancing services to others

For the purpose of paragraph 5, 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 the relevant period 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 such electricity

supplier (as defined above) 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 the relevant period 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 licensee's 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 7 (a) of this special condition) or network operator (as defined in the grid code).

8. Determination of incentive payments on external costs

For the purposes of paragraph 5, the term $IncPayExt_t$ shall be derived from the following formula:

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

where:

SF_t which is a balancing services activity sharing factor in respect of relevant period t , has the value specified either against the value of IBC_t for the relevant period t in the column headed SF_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of Part B of Schedule A.

MT_t which is a target for balancing services activity incentivised external costs in respect of relevant period t , has the value

specified either against the value IBC_t for relevant period t in the column headed MT_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of Part B of Schedule A.

IBC_t which is the cost of balancing services on which the licensee is incentivised during the relevant period t , is calculated in accordance with the formula given in paragraph 9.

CB_t which is a balancing services sharing factor offset in respect of the relevant period t , has the value either specified against the value of IBC_t for the relevant period t in the column headed CB_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of that Part.

9. For the purposes of paragraph 8, the term IBC_t in respect of relevant period t shall be calculated in accordance with the following formula:

$$IBC_t = CSOBM_t + BSCC_t + \sum_j (TL_j [TLRP_j]) + \sum_j (TQEI_j [NIRP_j]) - RT_t - OM_t$$

where:

j in all cases shall mean a settlement period (being a half an hour) as defined in the BSC.

$\sum_j (TL_j [TLRP_j])$ is the volume of transmission losses (TL_j) multiplied by the transmission losses reference price ($TLRP_j$) for each settlement period, summed across all settlement periods in the relevant period t .

$\sum_j (TQEI_j [NIRP_j])$ is the total net imbalance volume ($TQEI_j$) as defined in the BSC in force immediately prior to 1 April 2001 multiplied by the net imbalance volume reference price

(NIRP_j) for each settlement period, summed across all settlement periods in the relevant period t.

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 licensee's transmission system and the quantity taken from the licensee's transmission system during that settlement period, but excluding all generator transformer losses.

TLRP_j which is the transmission losses reference price, has the value specified for each settlement period set out in paragraph B3 of Part B of Schedule A.

NIRP_j which is the net imbalance volume reference price for each settlement period j, has the values set out in paragraph B4 in Part B Schedule A.

RT_t means the amount of any allowed income adjustments given by paragraph 12 (b) in respect of relevant period t.

10. Income adjusting events under the balancing services activity

- (a) An income adjusting event is any of the following:
- (i) an event or circumstance constituting force majeure under the BSC;
 - (ii) an event or circumstance constituting force majeure under the CUSC made between the licensee and others and providing for connection to and use of the licensee's transmission system;
 - (iii) a security period as defined in special condition AA5D; and

(iv) an event or circumstance which is, in the opinion of the Authority, an income adjusting event and approved by it as such.

(b) For the purpose of relevant year t commencing on 1 April 2004 and ending on 31 March 2005, the following items listed in tables 1 and 2 below shall not qualify as an income adjusting event for the purpose of sub-paragraph (a) above:

Table 1:

| Modification No. | Modification Title |
|-------------------------|--|
| P124 | Revision of mandatory half-hour metering criteria |
| P131 | Further provisions relating to Trading Disputes |
| P132 | Redefinition of Credit Cover requirements for reconciliation charges |
| P136 | Marginal Definition of the 'main' Energy Imbalance Price |
| P137 | Revised Calculation of System Buy and System Sell Price |
| P139 | Removal of Trading Unit Restriction on Interconnector Users |
| P140 | Revised Credit Cover Methodology for Interconnector BM Units |
| P142 | Allow Level 2 Default Cure Period in Defined Circumstances |
| P146 | New Participation Category to the BSC - Clearing House |
| P147 | Introduction of a Notified Contract Capacity |
| P150 | Targeting costs of PNE appeals to unsuccessful appellants |
| P151 | Housekeeping Modification |
| P152 | Reduction of Credit Cover for a Trading Party in Default |
| P153 | Support Competition in Distribution Networks |
| P154 | Rectification of Inconsistencies in the Change Process |
| P156 | Zonal Allocation of Transmission Losses |
| P157 | Replacement of current Supplier Charges rules |

Table 2:

| Amendment No. | Amendment Title |
|----------------------|--|
| CAP049 | Alternative Amendments |
| CAP050 | Review Process for implemented Urgent Amendment Proposals |
| CAP051 | Initiation of the Amendment Procedures by the Amendments Panel |
| CAP052 | Removal of Land Charges |
| CAP053 | Revision of Site Specific Maintenance Charges |
| CAP054 | Adoption of Year Round TNUoS Charges |
| CAP055 | Users' Demand Forecasts |
| CAP056 | Incorrect Reference to the Grid Code in Section 11 – Definitions |
| CAP057 | Removal of References to TSUoS Charges |
| CAP058 | Reinstatement of words lost from Legal Text following implementation of CAP043 |
| CAP059 | Addition of word "Paragraph" to Paragraph 2.17.9 |
| CAP060 | Incorrect spelling of "Judgment" in Paragraph 6.6.4 |
| CAP061 | Addition of "CUSC Panel Secretary" to Exhibit F, Note 10 |
| CAP062 | Amendment to National Grid address in various exhibits |
| CAP063 | Amendment to National Grid address in various exhibits |
| CAP064 | Minor Reference error in Paragraph 7.2, Schedule 2, Exhibit 3 |
| CAP065 | Removal of various paragraphs referring to NETA Go Live |

| | |
|--------|---|
| CAP066 | Removal of historic transitional provisions that no longer have any application |
| CAP067 | Clarification of Contractual Relationship Required for Embedded Generation (CUSC 6.5.1) |
| CAP068 | Competing Requests for TEC |
| CAP069 | Users' Forecasts Used in the Calculation of TNUoS Charges |
| CAP070 | Short Term Firm Access Service |

- (c) The Authority's approval of an income adjusting event shall be in writing, shall be copied to the licensee and shall be in the public domain; and the Authority may revoke this approval with the consent of the licensee.

11. (a) Where it appears to the licensee that there have been in respect of relevant period t costs and/or expenses which:

- (i) have been caused or saved by an income adjusting event; and
- (ii) have, for relevant period t, increased or decreased by more than £2,000,000 the value of IBC_t save that in the case of paragraph 10(a)(iii) only the threshold of £2,000,000 shall not apply

then the licensee shall give notice thereof to the Authority.

- (b) Where it appears to any other Party (as defined in the BSC) that there have been in respect of relevant year t costs and/or expenses which:

- (i) have been caused or saved by an income adjusting event; and
- (ii) have, for the relevant period t, increased or decreased by more than £2,000,000 the value of IBC_t save that in the case of

paragraph 10(a)(iii) only the threshold of £2,000,000 shall not apply

then that Party (as defined in the BSC) may give notice thereof to the Authority.

(c) The notice provided for in subparagraphs (a) and (b) shall give particulars of:

(i) the income adjusting event to which the notice relates;

(ii) the amount of any change in costs and/or expenses which appear to the person giving the notice to have been caused or saved by the event and the method of calculating such costs and/or expenses; and

(iii) the amount of any allowed income adjustment proposed as a consequence of that income adjusting event.

(d) 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 may not be given more than 3 months after the end of the relevant period in which it occurs.

12. (a) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):

- (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 11 are caused or saved by an income adjusting event;
 - (ii) whether the amount specified for the purpose of paragraph 11(c)(iii) has increased or decreased the value of IBC_t by more than £2,000,000 save that in the case of paragraph 10(a)(iii) only, the threshold of £2,000,000 shall not apply; and
 - (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.
- (b) In relation to the relevant period t , the allowed income adjustment RT_t shall be
- (i) the value determined by the Authority under subparagraph (a);
 - (ii) if the Authority has not made a determination in accordance with subparagraph (a) within 3 months of the date of the notice under paragraph 11, the respective values given to them in that notice; or
 - (iii) in any other case, zero.

Part 2 (ii): Balancing services activity revenue restriction on internal costs

No amendments are proposed to paragraphs 13 – 16 inclusive of this Special Condition.

Nothing in this text alters the operation of Part 1 of this Special Condition (paragraphs 13-16 inclusive).

Special Condition AA5E: Duration of the Transmission Network Revenue Restriction and the Balancing Services Activity Revenue Restriction

1. The balancing services activity revenue restriction and the transmission network revenue restriction shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 2 to 6 below.

2. The transmission network revenue restriction and the balancing services activity revenue restriction (or any of them) shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 3 or notice is given to the Authority by the licensee in accordance with either paragraph 5 or paragraph 6.

3. A disapplication request shall
 - (i) be in writing addressed to the Authority,
 - (ii) specify whether it relates to the balancing services activity revenue restriction and/or to the transmission network revenue restriction (or to both or any of them or to any part or parts thereof) and
 - (iii) state the date (being not earlier than the date referred to in paragraph 4) from which the licensee wishes the Authority to agree that those conditions shall cease to have effect.

4. No disapplication following delivery of a disapplication request shall have effect until a date being the earlier of not less than 18 months after delivery of the disapplication request or the following date:
 - (i) in the case of a disapplication request which relates to the transmission

network revenue restriction, 31 March 2006;

- (ii) in the case of a disapplication request which relates to the balancing services activity revenue restriction set out in Part 2(i) of special condition AA5A, 31 March 2005; and
- (iii) in the case of a disapplication request which relates to the balancing services activity revenue restriction set out in Part 2(ii) special condition AA5A, 31 March 2006.

Provided that in the event of a disapplication request being served by the licensee in the absence of agreeing any or all of the transmission network revenue and the balancing services activity revenue restriction the following default position shall apply:-

- (A) for the transmission network revenue restriction, the maximum allowable revenue for the relevant year commencing 1 April 2006 shall be defined in accordance with the formula in Part 1 of special condition AA5A where X_g equals zero and $GW_{ref,t}$, $Rate_t$ and L_t shall have the same values as those given in paragraphs 3 and 4 of Part 1 of special condition AA5A for the relevant year commencing on 1 April 2005;
- (B) for the balancing services activity revenue restriction set out in Part 2(ii) of special condition AA5A, the values set out in Schedule A, Part B for the relevant year commencing on 1 April 2005 shall apply; and
- (C) for the balancing services activity revenue restriction set out in Part 2(i) of special condition AA5A, the values set out in Schedule A, Part B shall apply.

5. If the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of the Conditions or the part of parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date, the licensee may deliver written notice to the Authority terminating the application of such Conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.

6. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the Conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that the cessation of those Conditions, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 13 of the Act deliver to him written notice terminating the application of those conditions or any part or parts thereof with effect from the disapplication date or later.

SCHEDULE A: SUPPLEMENTARY PROVISIONS OF THE CHARGE RESTRICTION CONDITIONS

PART A

No changes are proposed to Part A of Schedule A.

Nothing in this text alters the operation of Part A of Schedule A to this Special Condition.

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, 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 9 of special condition AA5A):
- (a) in respect of the relevant year t commencing on 1 April 2004, from the following table:

| IBC_t (£) | MT_t (£) | SF_t | CB_t (£) |
|--|---------------------------|-----------------------|---------------------------|
| < 315,000,000 | 0 | 0 | 40,000,000 |
| 315,000,000 < = IBC _t < 415,000,000 | 415,000,000 | 0.40 | 0 |
| 415,000,000 < = IBC _t < 515,000,000 | 415,000,000 | 0.40 | 0 |
| > = 515,000,000 | 0 | 0 | -40,000,000 |

(b) in respect of the relevant year t commencing on 1 April 2005 and each relevant year thereafter, the terms MT_t, SF_t and CB_t shall be set to zero.

B2. Not used.

B3. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term TLRP_j in respect of each settlement period during relevant period t shall have the value in £ per megawatt hour of 21.00.

B4. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term NIRP_j, which is the net imbalance volume reference price for each settlement period j, during relevant period t, shall be derived as follows:

(a)(i) when UKPX_j and APX_j data are published in respect of the relevant settlement period j then:

$$SPNIRP_j = (0.5 * UKPX_j) + (0.5 * APX_j)$$

- (ii) when UKPX_j data are published and APX_j data are not published in respect of the relevant settlement period j then:

$$SPNIRP_j = UKPX_j$$

- (iii) where UKPX_j data are not published in respect of the relevant settlement period j and APX_j data are published in respect of the relevant settlement period j then:

$$SPNIRP_j = APX_j$$

- (iv) where neither UKPX_j data and APX_j data have been published in respect of the relevant settlement period j then:

$$SPNIRP_j = SPNIRP_{j-1}$$

where:

SPNIRP_j means the single price net imbalance volume reference price for each settlement period j.

j in all cases shall mean a settlement period (being a half an hour) as defined in the BSC.

$j-1$ the settlement period immediately preceding the relevant settlement period j .

UKPX _{j} means the United Kingdom Power Exchange (UKPX) volume weighted reference price for each settlement period j based on the traded prices of half hourly spot contracts.

EFA block means the six four hourly blocks within the EFA day (being 23.00 hours to 23.00 hours in the immediately following day) set out in the table below:

| Block | Time |
|--------------|----------------|
| 1 | 23:00 to 03:00 |
| 2 | 03:00 to 07:00 |
| 3 | 07:00 to 11:00 |
| 4 | 11:00 to 15:00 |
| 5 | 15:00 to 19:00 |
| 6 | 19:00 to 23:00 |

APX _{j} means the Automated Power Exchange (UK APX) weighted average price in respect of all half hourly spot market and four (4) hour block market contracts delivered within the EFA block applying to those settlement periods j . In order to derive the APX _{j} price in respect of each relevant settlement period j the EFA block containing the relevant j shall be used.

(b) The term NIRP _{j} shall be derived as follows:

(i) when $TQEI_j < 0$

$$NIRP_j = SPNIRP_j + (SPNIRP_j * PA1)$$

(ii) when $TQEI_j > 0$

$$NIRP_j = SPNIRP_j - (SPNIRP_j * PA2)$$

(iii) when $TQEI_j = 0$

$$NIRP_j = 0$$

where in respect of the relevant period t , the terms PA1 and PA2 shall have the value ascribed to those terms in the following table:

| | |
|------------|-----|
| PA1 | 1.5 |
| PA2 | 0.5 |

B5. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term ISF_t shall be selected against the value of $CSOC_t$ (which shall be determined in accordance with paragraph 14 of Part 2(ii) of special condition AA5A):

(a) in respect of the relevant period t commencing on the day on which the effective time occurs, from the following table:

| (CSOC_t) (£) | ISF_t |
|---|------------------------|
| < 56,880,216 (R _t / Z _t) | 0.40 |
| = > 56,880,216 (R _t / Z _t) | 0.12 |

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- (b) in respect of the relevant year t commencing on 1 April 2002, from the following table:

| (CSOC_t) (£) | ISF_t |
|---|------------------------|
| < 55,869,013 (R _t / Z _t) | 0.60 |
| = > 55,869,013 (R _t / Z _t) | 0.50 |

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- (c) in respect of the relevant year t commencing on 1 April 2003, from the following table:

| (CSOC_t) (£) | ISF_t |
|---|------------------------|
| < 57,753,517 (R _t / Z _t) | 0.50 |
| = > 57,753,517 (R _t / Z _t) | 0.50 |

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- (d) in respect of the relevant year t commencing on 1 April 2004, from the following table:

| (CSOC_t) (£) | ISF_t |
|---|------------------------|
| < 57,567,216 (R _t / Z _t) | 0.40 |
| = > 57,567,216 (R _t / Z _t) | 0.40 |

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- (e) and in respect of the relevant year t commencing on 1 April 2005, from the following table:

| (CSOC_t) (£) | ISF_t |
|---|------------------------|
| < 60,656,843 (R _t / Z _t) | 0.40 |
| = > 60,656,843 (R _t / Z _t) | 0.40 |

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- B6. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term IMT_t in respect of the relevant year t shall be derived from the following table:

| Relevant Year | IMT_t (£) |
|---------------------------|----------------------------|
| Commencing 1 April | |

| | |
|------|----------------------------|
| 2001 | 56,880,216 (R_t / Z_t) |
| 2002 | 55,869,013 (R_t / Z_t) |
| 2003 | 57,753,517 (R_t / Z_t) |
| 2004 | 57,567,216 (R_t / Z_t) |
| 2005 | 60,656,843 (R_t / Z_t) |

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- B7. For the purposes of paragraph 14 of Part 2(ii) of special condition AA5A, the term $NSOC_t$ in respect of the relevant year t shall be derived from the following table:

| Relevant Year Commencing 1 April | $NSOC_t$ |
|---|----------------------------|
| 2001 | 21,698,749 (R_t / Z_t) |
| 2002 | 21,165,761 (R_t / Z_t) |
| 2003 | 20,602,773 (R_t / Z_t) |
| 2004 | 20,120,580 (R_t / Z_t) |
| 2005 | 19,496,842 (R_t / Z_t) |

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- B8. For the purpose of paragraph 14 of Part 2(ii) of special condition AA5A, the term $SOBR_t$ (being an allowance for non-domestic rates incurred by the licensee in operating the licensee's transmission system during relevant year t) shall be given by the following formula:

$$SOBR_t = SORate_t + \left(SORateDiff_t \left(1 + \frac{I_t}{100} \right) \right)$$

where:

$SORate_t$ is given by the table below;

| Relevant Year commencing 1 April | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------|-----------|-----------|-----------|-----------|-----------|
| $SORate_t$ | 0 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,100,000 |

and:

$SORateDiff_t$ is the difference between the non-domestic rates payable by the licensee in operating the licensee's transmission system in respect of year t-1 and $SORate_{t-1}$:

- B9. For the purpose of paragraph 14 of Part 2(ii) of special condition AA5A, the term PSC_t (being the costs incurred by the licensee in preparing participants' systems for the introduction of the New Electricity Trading Arrangements to be recovered under the balancing services activity) shall have the value given by the following formula:

$$PSC_t = PSAC_t + \left(PSACDiff_t \left(1 + \frac{I_t}{100} \right) \right)$$

where:

$PSAC_t$ is given by the table below:

| Relevant Year commencing on 1 April | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------------------------|------|-----------|------|------|------|------|
| PSAC _t | 0 | 4,200,000 | 0 | 0 | 0 | 0 |

and:

PSACDiff_t is the difference between the participant support costs incurred by the licensee in year t in respect of preparing participants' systems for the introduction of the New Electricity Trading Arrangements and PSAC_t.

- B10. For the purpose of paragraph 13 of Part 2(ii) of special condition AA5A, the term ASO_t shall have the value specified by the following formula:

$$ASO_t = \text{£}5,600,000 \left[\frac{NT}{365} \right]$$

where:

NT is given by the number of days, from and including the day on which the effective time occurred, to and including 31 March 2001, but otherwise have the value of zero.

- B11. For the purpose of paragraph 13 of Part 2(ii) of special condition AA5A, the value of the term NPI

- (a) in respect of the relevant period t shall be given by the following formula:

$$NPI = \frac{ND}{365} \quad \text{if} \quad ND \leq 365; \quad \text{or}$$

$$NPI = 1, \quad \text{if} \quad ND > 365;$$

where:

ND is given by the number of days from and including the day on which the effective time occurs to and including 31 March 2002; and

(b) for each relevant year t thereafter shall be 1.

B12. For the purpose of paragraphs B5, B6, B7, B13 and B14 of this Schedule:

Z_t has the value against relevant year t in the following table:

| Relevant year t Commencing 1 April | Z_t |
|---|-------------------------|
| 2001 | 175.17 |
| 2002 | 178.67 |
| 2003 | 182.25 |
| 2004 | 185.89 |
| 2005 | 189.61 |

and

RI_t shall have the value Z_t until such time as the Retail Price Index for the last month of each relevant year t is known when it shall be the arithmetic average of the Retail Price Indices in respect of each month of each relevant year t.

RM shall, until such time as the Retail Price Index for March 2001 is known, be 171.42 (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 2000 on the assumption that the Retail Price Index for January 1987 equals 100) after which it shall become the arithmetic average of the Retail Price Indices in respect of each month of the relevant year commencing on 1 April 2000.

B13. For the purpose of paragraph 15 of Part 2(ii) of special condition AA5A, the term CSF_{Mt} shall have the value:

(a) in respect of each month M of the relevant period t commencing at the effective time

(i) $CSF_{Mt} = 0.4$ when $0 \leq 0.4 CP_{Mt} < £250,000$

(ii) $CSF_{Mt} = 0$ otherwise

(b) in respect of each month M of the relevant year t commencing on 1 April 2002 and of each relevant year thereafter

(i)

$$CSF_{Mt} = 0.4 \text{ when } 0 \leq \left[0.4 CP_{Mt} \right] < \left[£250,000 \left(\frac{Z_t}{RN} \right) \left(\frac{RI_t}{Z_t} \right) \right]$$

(ii) $CSF_{Mt} = 0$ otherwise

where:

RN shall, until such time as the Retail Price Index for March 2002 is known, be 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) after which it shall become the arithmetic average of the Retail Price Index in respect of each month of the relevant year commencing on 1 April 2001.

and

RI_t and Z_t shall have the meanings ascribed to them in paragraph B12.

B14. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term OS_{Mt} shall have the value:

(a) in respect of each month M of the relevant period t commencing at the effective time

(i) $OS_{Mt} = 0$ when $CSF_{Mt} > 0$

(ii) $OS_{Mt} = £250,000$ when $CSF_{Mt} = 0$

(b) in respect of each month M of the relevant year t commencing on 1 April 2002 and of each relevant year thereafter

(i) $OS_{Mt} = 0$ when $CSF_{Mt} > 0$

$$(ii) \quad OS_{Mt} = \pounds 250,000 \left(\frac{Z_t}{RN} \right) \left(\frac{RI_t}{Z_t} \right) \text{ when } CSF_{Mt} = 0$$

where:

RI_t and Z_t shall have the meanings ascribed to them in paragraph B12 and
 RN shall have the meaning ascribed to it in paragraph B13.