

Notice under Section 11A (2) & (3) of the Electricity Act 1989

The Gas and Electricity Markets Authority ('the Authority') hereby gives notice pursuant to section 11A (2) & (3) of the Electricity Act 1989 ('the Act') as follows:

1. In electricity transmission licences granted, or treated as granted, pursuant to Section 6(1)(b) of the Act, the Authority proposes to modify standard licence condition ("SLC") C20 (Assistance for Areas with High Distribution Costs Scheme: Restriction on Revenue) in section C of the SLCs. The proposed modifications are to:
 - a. remove the reference to "total scheme amount" in paragraph 1 and replace it with a best endeavours obligation on the Licensee to ensure that the revenue derived by the Licensee from "assistance for areas with high distribution costs scheme activity" shall not exceed the amount calculated in accordance with the existing formula under that paragraph and remove the definition of "total scheme amount" from existing paragraph 5;
 - b. insert a definition of "assistance for areas with high distribution costs scheme activity" in paragraph 5 as a consequence of the proposed modification outlined in 1a. above;
 - c. modify the definition of HBC_{t-1} in the paragraph 4 to introduce the word "late" in relation to payments received from authorised suppliers on which interest will be paid; and
 - d. modify the definition of "relevant distributor" in paragraph 6 to note that the activity relates to the distributing of electricity in an area specified in the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005.
2. The reasons for the Authority proposing the modifications are to provide clarity in the licence drafting of SLC C20 to ensure that the licence condition is consistent with the intent of the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005.
3. In respect of issues 1a. and 1b. set out above the proposed modification to remove the term "total scheme amount" from paragraph 1 and to replace it with reference to the defined "assistance for areas with high electricity distribution costs scheme activity" clarifies that in any year the revenue derived by the licensee from the "assistance for areas with high distribution scheme activity" should not exceed the amount calculated as representing the assistance for areas with high distribution costs scheme amount (HBMT) in accordance with the formula set out in paragraph 1.
4. Paragraph 4 requires modification to clarify that interest is paid in relation to "late payments". The addition of the term "late" to paragraph 4 would improve the clarity of the condition.

5. Finally, a change to the definition of “relevant distributor” is necessary to clarify that the relevant distributor is only a distributor acting in the specified area as defined in the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005.
6. The effect of these proposed modifications will be to improve the clarity of the existing licence drafting in SLC C20.
7. The proposed licence modifications are annexed to this notice.
8. Any representations or objections to the proposed licence modifications may be made by 13 September 2005 and should be addressed to Colin Sausman, 9 Millbank, London, SW1P 3GE (020 7901 7339) or colin.sausman@ofgem.gov.uk



Robert Hull
Director – Transmission, Networks
Authorised on behalf of the Authority

16 August 2005

Annex

NOTICE UNDER SECTION 11A ELECTRICITY ACT

Modification of existing provisions of the transmission licence

Condition C20. Assistance for areas with high distribution costs scheme:
restriction on revenue

1. The licensee shall use its best endeavours to ensure that in each relevant year the revenue derived by the licensee from assistance for areas with high distribution costs scheme activity shall not exceed the assistance for areas with high distribution costs scheme amount for that relevant year as calculated in accordance with the following formula:

$$HBM_t = A_t + HBOC_t - HBK_t$$

where

HBM_t means the assistance for areas with high distribution costs scheme amount in relation to the relevant year t.

A_t represents the assistance amount in relation to the relevant year t.

$HBOC_t$ represents the administration allowance in relation to the relevant year t.

HBK_t represents the correction amount in relation to the relevant year t.

2. For the purposes of paragraph 1 above, for the first relevant year of the assistance for areas with high distribution costs scheme, the assistance amount shall have the value specified in the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005 and for each subsequent relevant year the assistance amount shall be derived from the following formula:

$$A_t = A_{t-1} \left(1 + \frac{RPI_t}{100} \right)$$

where

A_{t-1} represents the assistance amount in relation to the relevant year t-1.

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index figures published or determined with respect to each of the six months May to October (both inclusive) in relation to the relevant year t-1 and that are published or determined with respect to the same months in relation to the relevant year t-2.

3. For the purposes of paragraph 1 above, for the first relevant year of the assistance for areas with high distribution costs scheme, the administration allowance shall have the value of £150,000 (one hundred and fifty thousand pounds), for the second relevant year of the assistance for areas with high distribution costs scheme, the administration allowance shall have the value of £80,000 (eighty thousand pounds) and for each subsequent relevant year, the administration allowance shall be derived from the following formula:

$$HBOC_t = HBOC_{t-1} \left(1 + \frac{RPI_t}{100} \right)$$

where

$HBOC_{t-1}$ represents the administration allowance in relation to the relevant year t-1.

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index figures published or determined with respect to each of the six months May to October (both inclusive) in relation to the relevant year t-1 and that are published or determined with respect to the same months in relation to the relevant year t-2.

4. For the purposes of paragraph 1 above, for the first relevant year of the administration for areas with high distribution costs scheme, the correction amount shall have the value zero and for all subsequent relevant years shall have the value derived from the following formula:

$$HBK_t = (HBC_{t-1} - HBM_{t-1}) \left(1 + \frac{I_t}{100} \right)$$

where
 HBC_{t-1}

means the actual income from payments received from authorised suppliers pursuant to standard condition C21 (Assistance for areas with high distribution costs scheme: payments from authorised suppliers), excluding an amount for interest on [late](#) payments, using the base interest rate in relation to the relevant year t-1.

HBM_{t-1}

means the total scheme amount in relation to the relevant year t-1.

I_t

represents the base interest rate in relation to the relevant year t as of the date upon which such calculation under paragraph 1 above is conducted.

5. In this condition:

“administration allowance”

means the amount of the licensee’s revenue allowance for administering the assistance for areas with high distribution costs scheme with the value specified in or calculated in accordance with paragraph 3 above.

“assistance amount”

means the amount payable by the licensee to a relevant distributor in any relevant year made pursuant to standard condition C22 (Assistance for areas with high distribution costs scheme: payments to a relevant distributor) and with the value specified in or calculated in accordance with paragraph 2 above.

“assistance for areas with high distribution costs scheme”

means the scheme established pursuant to the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005.

[“assistance for areas with high distribution costs scheme activity”](#)

[means the activity undertaken by the licensee or any affiliate or related undertaking as part of the transmission business relating to the implementation, administration and ongoing maintenance of the assistance for areas with high distribution costs scheme established pursuant to the Energy Act 2004 \(Assistance for Areas with High Distribution Costs\) Order 2005.](#)

“authorised supplier”

has the same meaning as in section 184 of the Energy Act 2004.

“base interest rate”	means, in respect of any day, the rate per annum which is equal to the base lending rate from time to time of Barclays Bank PLC as at the close of business on the immediately preceding business day.
“business day”	means any week day other than a Saturday on which the banks are open for domestic business in the City of London.
“correction amount”	means the amount for reconciliation of payments in respect of the assistance for areas with high distribution costs scheme with the value as specified in or calculated in accordance with paragraph 4 above.
“late payments”	means payments required to be made by authorised suppliers and not received by the licensee by the due date specified in any invoice issued by the licensee in relation to same pursuant to standard condition C21 (Assistance for areas with high distribution costs scheme: payments from authorised suppliers).
“relevant distributor”	has the same meaning as in section 184 of the Energy Act 2004 <u>where the relevant distribution system is located in the specified area.</u>
“relevant year”	means a year beginning on 1 April of each calendar year and ending on 31 March of the following calendar year.
“specified area”	means the area specified in the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005.