

To: The Company Secretary  
National Grid Electricity Transmission plc (Company number: 2366977)  
1-3 Strand  
London  
WC2N 5EH

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

Whereas:

1. National Grid Electricity Transmission plc ('the Licensee') is the holder of a licence ('the Licence') treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Pursuant to section 11(2) of the Act, on 28 February 2006 the Authority:
  - (i) gave notice (the "Notice") that it proposed to modify the Licence by amending the following conditions and schedule provisions in accordance with either Schedule 1, Schedule 2 or Schedule 3 to the Notice:
    - (a) paragraphs 5 (in Schedule 3 only), 5A, 9, 10 (in Schedules 1 and 2 only), 14 and 16 of Special Condition AA5A (Revised Restrictions on Revenue);
    - (b) paragraph 4 of Special Condition AA5E (Duration of the Transmission Network Revenue Restriction and the Balancing Services Activity Revenue Restriction); and
    - (c) paragraphs B1 (in Schedules 1 and 2 only), B2, B3 (in Schedules 1 and 2 only), B5 – B9 inclusive and B15 of Schedule A Part B (Terms used in the balancing services activity revenue restriction); and
  - (ii) published the Notice in the manner it considered appropriate.
3. The Authority gave notice to the Secretary of State of its intention to make the modification and did not receive from him a direction not to make the modification.
4. The Authority received and has considered representations or objections in relation to the proposed modification made to it and not withdrawn.
5. The proposals contained in Schedule 3 to the Notice were put forward in order to keep the internal incentive scheme running in the event that the Licensee did not accept the proposals put forward in Schedule 1 or Schedule 2 in relation to the external balancing scheme. However, this does not imply that

the Authority considers the proposals put forward in Schedule 3 to be adequate as regards the external incentive scheme and the Authority may decide to refer this matter to the Competition Commission.

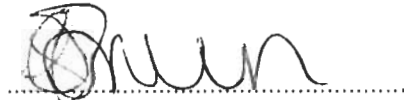
6. Paragraphs 2 and 6 of Schedule 3 to the Notice included proposed amendments to the external balancing scheme (namely, proposed amendments to paragraph 5 and paragraph 5A of Special Condition AA5A and paragraph B2 of Schedule A Part B). It was thought that these were necessary consequential amendments. However, it has come to the Authority's attention that such amendments are not necessary. Accordingly, the Authority is of the view that Schedule 3 to the Notice should not have included these proposed amendments. The Authority informed the Licensee of this on 30 March 2006.
7. The Licensee has given its written consent to the modifications proposed in Schedule 3 to the Notice that relate to the internal incentive scheme (namely, paragraphs 3 to 5 (inclusive) and 8 to 13 (inclusive) of the Notice).

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 accordance with paragraphs 3 to 5 (inclusive) and 8 to 13 (inclusive) of Schedule 3 to the Notice and in the manner specified in the attached Schedule, with effect on and from 1 April 2006.

Dated

31 March 2006

The Official Seal of the Authority affixed to this modification is authenticated by:

A handwritten signature in black ink, appearing to be 'Orun', written over a dotted line.

authorised in that behalf by the Authority

## Schedule

1. Special Condition AA5A (Revised Restrictions on Revenue) is amended in accordance with paragraphs 2 and 3 of this Schedule.
2. In Part 2 (ii) (Balancing services activity revenue restriction on internal costs), in paragraph 14—
  - (a) in the definition of  $BI_t$ —
    - (i) for "1 April 2005" substitute "1 April 2006";
    - (ii) for "£12,374,000" substitute "£10,853,000";
  - (b) in the definition of  $ON_t$ —
    - (i) for "£3,228,000" substitute "£1,000,000";
    - (ii) for "1 April 2005" substitute "1 April 2006".
3. In Part 2 (ii) (Balancing services activity revenue restriction on internal costs), in paragraph 16, in sub-paragraph (b)—
  - (a) for "1 April 2005" substitute "1 April 2006";
  - (b) for "31 March 2006" substitute "31 March 2007".
4. In Special Condition AA5E (Duration of the Transmission Network Revenue Restriction and the Balancing Services Activity Revenue Restriction)—
  - (a) in paragraphs 4(ii) and 4(iii), for "31 March 2006" substitute "31 March 2007";
  - (b) in paragraph 4(B), for "1 April 2005" substitute "1 April 2006".
5. Schedule A (Supplementary Provisions of the Charge Restriction Conditions), Part B (Terms used in the balancing services activity revenue restriction), is amended in accordance with paragraphs 6 to 11 of this Schedule.
6. In paragraph B5, after sub-paragraph (e), insert—
  - (f) in respect of the relevant year  $t$  commencing on 1 April 2006, from the following table:

$(CSOC_t)$ (£)	$ISF_t$
<68,932,600	1.0
68,932,600 =>	1.0

7. For the table in paragraph B6, substitute—

Relevant Year Commencing 1 April	$IMT_t$ (£)
2001	56,880,216 ( $RI_t / Z_t$ )
2002	55,869,013 ( $RI_t / Z_t$ )

2003	57,753,517 ( $RI_t / Z_t$ )
2004	57,567,216 ( $RI_t / Z_t$ )
2005	(60,656,843 + $EC_t$ ) ( $RI_t / Z_t$ )
2006	68,932,600

8. For the table in paragraph B7, substitute--

Relevant Year Commencing 1 April	NSOC <sub>t</sub>
2001	21,698,749 ( $RI_t / Z_t$ )
2002	21,165,761 ( $RI_t / Z_t$ )
2003	20,602,773 ( $RI_t / Z_t$ )
2004	20,120,580 ( $RI_t / Z_t$ )
2005	19,496,842 ( $RI_t / Z_t$ )
2006	26,026,100

9. For the table in paragraph B8, substitute--

Relevant Year commencing 1 April	SORate <sub>t</sub>
2000	0
2001	1,000,000
2002	1,000,000
2003	1,000,000
2004	1,000,000
2005	1,100,000
2006	1,100,000

10. For the table in paragraph B9, substitute--

Relevant Year commencing 1 April	PSAC <sub>t</sub>
2000	0
2001	4,200,000
2002	0
2003	0
2004	0
2005	0
2006	0

11. In paragraph B15, in the last sentence, after "1 April 2005" insert "and for periods commencing from 1 April 2006".