

**Schedule 1: Special Conditions to SP
Transmission Ltd's electricity transmission
licence**

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Chapter 1: Definitions

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,

will, 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:

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 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	means any cost allowed by the Authority (upon receipt of such information, including a certificate from the auditors, as the Authority may request) as being a cost which is directly attributable to any action taken or omitted to be taken by the licensee in its capacity as holder of the license for the purpose of complying with directions issued by the Secretary of State under Section 34(4) of the Act.
Allowed Transmission Owner Revenue	means the revenue calculated in accordance with the formula set out in Part B of Special Condition 3A (Restriction of Transmission Network Revenue).
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.
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.
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 in Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure).
Boundary Transfer Capability	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 indirectly connected to the national electricity system.
Capex Rolling Incentive	means, for the purpose of Special Condition 6A (Legacy price control adjustments – Transmission Owner) the mechanism giving rise to the capital expenditure incentive revenue adjustment term, CxIncRA _t in Special Condition J7 (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).
Carbon Benefits	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.
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 Scotland, the United Kingdom, the United States of America or the European Community.
Confidential Information	means any information relating to or deriving from the management or operation of the Transmission Business shall, for the purposes of Special Condition 2B (Restriction on the use of certain information), be treated as confidential information.
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).
Delivered	for the purposes of Special Condition 6F (Baseline generation connection outputs and generation connections volume driver) means transmission infrastructure works for Generation Connections that have undergone second stage electrical commissioning.

Delivery/Delivered	for purposes of Special Condition 6I (Specification of Baseline Wider Works and Strategic Wider Works Outputs and the Assessment of Allowed Expenditure) means transmission infrastructure developments to reinforce the licensee's Transmission System that have undergone second stage electrical commissioning.
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.
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 TO Special Conditions should be disappplied 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 TO Special Conditions (in whole or in part) for the purposes of and in accordance with Special Condition 8A (Disapplication of Relevant Special Conditions).
Electricity Arbitration Association	means the unincorporated members' club of that name formed inter alia to promote the efficient and economic operation of the procedure for the resolution of disputes within the electricity supply industry by means of arbitration or otherwise in accordance with its arbitration rules.
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 under the provisions of Special Condition 3H (The Network Innovation Allowance).
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 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.
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	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 transmission infrastructure 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 Transmission 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 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 which 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"> (a) are named as such in the ET1 Price Control Financial Handbook; and (b) 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 the ET1 Price Control Financial Instruments) that was first published by the Authority on 1 February 2013 and which came into effect on 1 April 2013:

- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name on the Authority's website; and
- (b) that the Authority will use to determine the values of the terms MOD_t through the application of 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 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 7 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).
External Assurance	means a process to reflect the quality of the licensee's performance to its stakeholders and used to derive the incentive term SEA _t term in accordance with the process provided for in Special Condition 3D (Stakeholder Satisfaction Output).
External Assurance Methodology	means the methodology to support the External Assurance to be submitted by the licensee within 30 days of 1 April 2013 under the provisions of Part G of Special Condition 3D (Stakeholder Satisfaction Output).
External Assurance Score	means the performance result, for the period concerned, for External Assurance under Special Condition 3D (Stakeholder Satisfaction Output).
External Distribution Activities	means any business of the licensee or any affiliate or related undertaking comprising or ancillary to the maintenance, repair or operation of, or other activities in connection with any electricity distribution or Transmission System other than the licensee's distribution system ("an external distribution system").
External Transmission Activities	means any business of the licensee or any affiliate or related undertaking of the licensee comprising or ancillary to the maintenance, repair or operation in an emergency of any electricity distribution system or any part of the National Electricity Transmission System other than the licensee's Transmission System.
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 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	has the meaning given to it by paragraph 6F.1 of Special Condition 6F (Baseline generation connection outputs and generation connections volume driver).
Halted Project Revenues	has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).
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

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:

(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.

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

means the proposed cost of Rolling out a Proven Innovation in relation to Special Condition 6E

	(The Innovation Rollout Mechanism).
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.
Key Performance Indicators	means measures to reflect the quality of the licensee’s performance to its stakeholders and used to derive the incentive term SKPI in accordance with the process provided for in Special Condition 3D (Stakeholder Satisfaction Output).
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” 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	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	has the meaning given to that term in paragraph 3H.1 of Special Condition 3H (The Network Innovation Allowance).
Network Innovation Competition	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).
Network Replacement Outputs	for the purposes of Special Condition 2M (Specification of Network Replacement Outputs) means the Replacement Priority 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) means any new asset that does not yet form part of the licensee's Transmission System or control centre for use in conjunction therewith.
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	refers to the arrangements, pursuant to Special Condition 3I (The Network Innovation Competition) of its transmission licence, for the recovery by the System Operator through its Transmission Network Charges of the amount of total authorised NIC Funding in any Relevant Year and the apportionment of that amount between the System Operator, the Licensee, and other electricity Transmission Licensees.
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 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:

- (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.

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).

Ordinary Business Arrangement

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 or another Transmission Owner at the start of the Price Control Period.

Outage Change

means a change notified to the licensee by the System Operator on or after week 49 to the outage plan, as updated from time to time in accordance with the STC, other than:

- (a) a change to the outage plan requested by the licensee (the “original change”), and
- (b) such changes notified to the licensee by the System Operator which:
 - i) the licensee and the System Operator 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

	(c) without prejudice to subparagraphs (a) and (b) above, 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 this licence condition (a “non-chargeable outage change”).
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 Substitution (OS)	has the meaning given to it by Part B of Special Condition 3L (Pre-construction Engineering outputs for prospective Strategic Wider Works).
PCFM Variable Value	a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model: <ul style="list-style-type: none"> (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and (b) whose revision does not constitute a modification to the ET1 Price Control Financial Model for the purposes of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).
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.
Pre-construction Engineering (PE)	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 prospective Strategic Wider Works on the National Electricity Transmission System.
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	means an Innovation which the Transmission Owner can demonstrate has been successfully trialled or demonstrated either on the network to which this licence relates or elsewhere.
Regulatory Asset Value (RAV)	has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.
Regulated Transmission Revenue	means the revenue (measured on an accruals basis) derived from the provision of transmission owner services (including to any separate business, other than the Transmission Business) in the relevant year, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
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	means the cumulative amount of generation connection capacity connected to a part of the licensee's Transmission System or connected to a distribution system which in turn connects directly to a part of the licensee's Transmission System for which Sole-use Generation Connections are completed and commissioned (in accordance with the STC) after 31 March 2013.
Relevant Installed Asset Rating	means the cumulative amount of installed asset rating capacity to accommodate generation connections to a part of the licensee's Transmission System or connected to a distribution system which in turn connects directly to a part of the licensee's Transmission System for which Shared-use Generation Connections are completed and commissioned (in accordance with the STC) after 31 March 2013.
Relevant 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 which a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions) relates.
Relevant Year	a year beginning on 1 April to which the provisions of this licence apply.
Relevant Year k	means the Relevant Years in which the licensee undertook activity to deliver the output up to the latest reported k= year t-2.
Relevant Year t	for the purposes of the Special Conditions in Chapters 5 and 6, means the Relevant Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Special Condition 3A (Restriction of Transmission Network Revenue) and references to Relevant Year t-1 and Relevant Year 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

	<p>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.</p>
Retail Prices Index Forecast Growth Rate	<p>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.</p>
Returned Royalty Income	<p>has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).</p>
RIIO Principles	<p>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.</p>
Roll-out	<p>means the incorporation of a Proven Innovation into an Ordinary Business Arrangement.</p>
Scheduled Project	<p>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.</p>
Security Period	<p>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 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,</p>

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-use Generation Connections	means transmission infrastructure works associated with the connection of more than one new or additional generating station to a part of the licensee's Transmission System (or connected to a distribution system which in turn connects to a part of the licensee's Transmission System) as specified in relevant agreements between the licensee and the System Operator pursuant to the STC, where construction of those works takes place (in whole or in part) after 31 March 2013.
Site-Specific Charges	means charges defined in Schedule Ten of the STC.
Sole-use Generation Connections	means transmission infrastructure works associated with the connection of new or additional generation capacity from a single generating station to a part of the licensee's Transmission System (or connected to a distribution system which in turn connects to a part of the licensee's Transmission System) as specified in relevant agreements between the licensee and the System Operator pursuant to the STC, where construction of those works takes place (in whole or in part) after 31 March 2013.
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 Incentive	means the incentive term set out in Part A of 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 Score	means the performance result from the Stakeholder Satisfaction Survey provided for in Part D 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).
Target Stakeholder Satisfaction Survey Score	means the term provided for in Part D of Special Condition 3D (Stakeholder Satisfaction Output). To be populated by the Authority following submission by the licensee.
TII Actual Allowance	means the total capital expenditure allowance in respect of Transmission Investment Incentives Projects, expressed in 2009-10 prices, determined 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) 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 to 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 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.
TII Year	means a Relevant 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	means, in relation to each transmission investment project <i>i</i> specified in Schedule C, 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: <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 is commissioned;
	(f) $t=n+1$ means the Relevant Year in year 1 post commissioning period for that transmission investment project i and similar expressions shall be construed accordingly.
Totex	has the meanings 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	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).
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	has the meaning given to this term in Standard Condition B1 (Regulatory Accounts).
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 activity in the legacy period) and 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 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) 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 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.
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.
Vanilla Weighted Average Cost of Capital	has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.

Wider Works

means transmission reinforcement works that are designed to reinforce or extend the National Electricity Transmission System which may include works to attain compliance 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 D3 (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.

Special Condition ~~AA-1B~~. Transmission area

[No change, other than title, to any of the text that is currently in force in Special Condition AA]

Special Condition F1C. Amended standard conditions

1. Standard condition A1 (Definitions and interpretation) ~~wi~~shall be amended as follows:

(a) the following text ~~wi~~shall be inserted between the definition of "Section D (transmission owner standard conditions) Directions" and the definition of "statutory accounts":

"separate business"

means each or any of:

- (a) any supply business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
- (b) -any distribution business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
- (c) any generation business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
- (d) any interconnector business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;”

(b) in the definition of "transmission business", the following text ~~wi~~shall be added as sub-paragraph (i) "any other separate business;"

(c) the existing sub-paragraphs (i) and (ii) of the definition of "transmission business" ~~wi~~shall be renumbered as (ii) and (iii) respectively; and

(d) in the definition of "transmission business" in sub-paragraph (iii), the words "(whether or not a separate business)" are inserted after "any other business".

~~2. Standard condition B1 (Regulatory accounts) shall be amended by the addition of the following text at the beginning of paragraph 6:~~

~~"6. Unless the Authority otherwise consents (such consent may be given in relation to some or all of the obligations in this condition and may be given subject to such conditions as the Authority considers appropriate), ..."~~

Chapter 2: General Obligations

Special Condition B:2A. Activities restrictions

[No change, other than title, to any of the text that is currently in force in Special Condition B]

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

1. Any information relating to or deriving from the management or operation of the Transmission Business shall, for the purposes of this condition, be treated as confidential information.
2. The licensee shall not (and shall procure that its affiliates and related undertakings shall not) disclose or authorise access to confidential information:
 - (a) save to the extent provided by sub-paragraphs 3(b) to (d), to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of any other business (whether or not a separate business) of the licensee; or
 - (b) save to the extent permitted by paragraph 3, to any other person.
3. Subject to paragraphs 9 to 12 of Special Condition D:2I (Independence of and appointment of managing director of the Transmission Business), the licensee shall (and shall procure that its affiliates and related undertakings shall) disclose or authorise access to confidential information only:
 - (a) in the following circumstances, namely;
 - (i) to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of the Transmission Business or any external transmission activities and require access to the information for that purpose;
 - (ii) to personnel of any holder of a distribution licence or a transmission licence holder engaged in the external distribution activities of that distribution licence holder, or the external transmission activities of that transmission licence holder (as the case may be), to the extent necessary for the performance by such personnel of those external distribution activities, or those external transmission activities (as the case may be), and the use by such personnel of that information for that purpose;provided that effective arrangements are maintained in place at all times for ensuring that no further disclosure of any information supplied or obtained pursuant to this paragraph is made and that such information is used only for the purpose of the Transmission Business or any external transmission activities of the licensee;
 - (b) where the licensee (or any affiliate or related undertaking of the licensee) is required or permitted to disclose such information by virtue of:
 - (i) any requirement of a competent authority;

- (ii) the standard conditions of any licence granted or taking effect as if granted under the Act or any document referred to in such a licence with which it is required by virtue of the Act or that licence to comply;
 - (iii) any other requirement of law; or
 - (iv) the rules of the Electricity Arbitration Association or of any judicial or other arbitral process or tribunal of competent jurisdiction;
- (c) where such information was provided by or relates to any person who has notified (or otherwise agreed with) the licensee that it need not be treated as confidential;
- (d) where such information, not being information provided by or relating to any person other than the licensee, is placed by the licensee in the public domain; or
- (e) where such information is required for the purposes of assisting other transmission licence holders, including National Grid Company plc in the capacity of the party who has been identified by the Minister for Energy as the party whose application to be GB System Operator the government is minded to accept, to prepare for and plan and develop the operation of a GB transmission system and such other matters as will facilitate the implementation of new arrangements relating to the trading and transmission of electricity in Great Britain designed –
- (i) to promote the creation of a single competitive wholesale electricity trading market; and
 - (ii) to introduce a single set of arrangements for access to and use of any Transmission System in Great Britain,

and in each case the licensee shall disclose or authorise access to the confidential information only insofar as is necessary or appropriate in all the circumstances.

4. Subject to paragraphs 9 to 12 of sSpecial eCondition D2I (Independence of and appointment of managing director of the Transmission Business), the licensee shall use all reasonable endeavours to ensure that any person who is in possession of or has access to confidential information in accordance with subparagraph 3(a) shall use such information only for the purposes of the Transmission Business or any external transmission activities.

5. In this condition

"competent authority"

means the Secretary of State, the Authority, the Compliance Officer, the Stock Exchange, the Panel on Takeovers 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"

bears the meaning given at paragraph 1.

"Electricity Arbitration Association"

means the unincorporated members' club of that name formed inter alia to promote the efficient and economic operation of the procedure for the resolution of disputes within the electricity supply industry by means of arbitration or otherwise in accordance with its arbitration rules.

"external distribution activities"

means any business of the licensee or any affiliate or related undertaking comprising or ancillary to the maintenance, repair or operation of, or other activities in connection with any electricity distribution or Transmission System other than the licensee's distribution system ("an external distribution system").

"external transmission activities"

has the meaning given to that term in sSpecial eCondition D2I (Independence of and appointment of managing director of the Transmission Business) of this part of this licence.

Special Condition 2C. Not used

Special Condition 2D. Not used

Special Condition 2E. Not used

Special Condition 2F. Not used

Special Condition 2G. Not used

Special Condition E.2H. Appointment of a Compliance Officer

1. The licensee shall prepare a statement in a form approved by the Authority setting out the practices, procedures and systems which the licensee has adopted (or intends to adopt) to ensure its compliance with the relevant duties.
2. The licensee may periodically revise the information 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 information 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 of this condition, to the Authority.
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 the relevant duties.
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 of this condition, which duties and tasks shall include those set out at paragraph 8 of this condition.
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 practices, procedures and systems adopted by the licensee in accordance with the statement referred to at paragraph 1 of this condition.
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;
 - (c) investigating any complaint or representation made available to him in accordance with paragraph 7 of this condition;
 - (d) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;

- (e) 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 of this condition; and
 - (ii) any remedial action recommended in accordance with sub-paragraph (d); and
- (f) reporting annually to the directors of the licensee - in respect of the year ending 31 December 2001 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 of this condition 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 of this condition; and
- (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.

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

12. In this condition:

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

Special Condition D-21. Independence of and appointment of managing director of the Transmission Business

1. (a) The licensee shall establish and shall thereafter maintain the full managerial and operational independence of the Transmission Business and any external transmission activities from each other business (whether or not a separate business) of the licensee and of its affiliates and related undertakings.
- (b) The licensee shall appoint an officer (hereafter referred to as "the Managing Director of Transmission") to be responsible for the conduct of the Transmission Business and any external transmission activities.

2. The Managing Director of Transmission may be a director:

- (a) of the transmission licensee; or
- (b) in the circumstances set out in paragraph 12 of this condition only, of the licensee and of an affiliate or related undertaking of the licensee which holds a distribution licence or a holding company only engaged in ownership or management of distribution or Transmission Businesses or both;

provided that the licensee shall ensure that the Managing Director of Transmission shall not be a director of any other affiliate or related undertaking of the licensee and that he shall not be engaged by the licensee in any other capacity than as Managing Director of Transmission.

3. The licensee shall arrange for the Managing Director of Transmission in the course of discharging his responsibility under paragraph 1 of this condition to be provided from time to time with:

- (a) the services of such persons (as the Managing Director of Transmission may from time to time select), whose services:
 - (i) may be dispensed with at the sole discretion (subject to compliance with relevant UK employment legislation) of the Managing Director of Transmission; and
 - (ii) will only be utilised if such persons execute a contract of or for services containing an appropriate confidentiality clause regarding that information which may be acquired by such person whilst working for the Transmission Business and any external transmission activities;
- (b) such premises, systems, equipment, facilities, property, personnel, data and management resources; and
- (c) such finance;

as may be reasonably required by the Managing Director of Transmission for the efficient and effective management and operation of the Transmission Business in accordance with the licensee's duty under section 9(2)(a) of the Act and the transmission licence.

4. The licensee shall direct the Managing Director of Transmission:
 - (a) to inform the directors of the licensee, in writing, if, at any time, he is of the opinion that the provision of those items specified in paragraph 3 of this condition are not sufficient to enable the licensee to comply with its duties under section 9(2)(a) of the Act and the transmission licence; and
 - (b) as soon as practicable after the end of the year 2001 and of each subsequent calendar year, to furnish to the directors of the licensee:
 - (i) an informative report on the provision of those matters made in respect of that year; and
 - (ii) a statement of his opinion whether adequate arrangements have been or are likely to be made for the provision of those matters which will be required in respect of the ensuing calendar year to enable the licensee to comply with those duties including, in particular, a description of the differences in the provision of those matters made or likely to be made in that year compared with the provision made in respect of the preceding year and the reasons for those differences.
5. On receipt of any information under paragraph 4(a) of this condition or report and statement under paragraph 4(b), the licensee shall, subject to compliance with the listing rules (within the meaning of Part IV of the Financial Services Act 1986 (c.60)) of the Stock Exchange:
 - (a) give to the Authority forthwith that information or report and statement; and
 - (b) where such a report is received, publish it in such form and manner as the Authority may direct.
6. Except insofar as the Authority consents to the licensee doing so, the licensee shall only give directions to the Managing Director of Transmission as to the discharge of his responsibilities under paragraph 1 of this condition:
 - (a) where:
 - (i) in the bona fide and reasonable opinion of the licensee the statutory, licence and contractual obligations of the licensee; or
 - (ii) in the bona fide opinion of the directors, their duties;so require; or
 - (b) to ensure compliance with paragraph 4.
7. The licensee shall give directions under sub- paragraph 6(a) of this condition by notice in writing, specifying in the notice the statutory, licence or contractual obligations of the licensee or duty of the directors of the licensee which require the licensee to give directions, which notice shall be copied to the Authority.
8. Except insofar as the Authority consents to the licensee not doing so, the licensee shall, subject to paragraph 9 below, ensure that:

- (a) no business of the licensee (or of any affiliate or related undertaking of the licensee), other than the Transmission Business or any external transmission activities, may use or have access to:
 - (i) premises or parts of premises occupied by persons engaged in, or in respect of, the management or operation of the Transmission Business or any external transmission activities;
 - (ii) systems for the recording, processing or storage of data to which persons engaged in, or in respect of, the management or operation of the Transmission Business or any external transmission activities also have access;
 - (iii) equipment, facilities or property employed for the management or operation of the Transmission Business or any external transmission activities; or
 - (iv) the services of persons who are (whether or not as their principal occupation) engaged in, or in respect of, the management or operation of the Transmission Business or any external transmission activities; and
- (b) it can and does, insofar as is legally possible, prevent any person who has ceased to be engaged in, or in respect of, the management or operation of the Transmission Business from being engaged in, or in respect of, the activities of any other business of the licensee (or of any affiliate or related undertaking of the licensee) until the expiry of an appropriate time from the date on which he ceased to be engaged by the Transmission Business.

9. The Authority may, upon the written request of the licensee, issue a direction relieving the licensee of its obligations under sSpecial eCondition €2B (Restriction on use of certain information) and under paragraphs 1(a), 2 and 8 of this condition, to such extent and subject to such terms and conditions as he may specify in that direction, where:

- (a) it is not reasonably practicable for the licensee to comply with any aspect of those obligations;
- (b) in the case of paragraphs 2 to 4 of sSpecial eCondition €2B (Restriction on use of certain information), a failure to comply with any aspect of those obligations would be of a trivial nature; or
- (c) in the case of paragraphs 1(a) and 8 of this condition, any arrangements for the use of or access to premises, systems, equipment, facilities, property or personnel by both the Transmission Business and any other business of the licensee (or of any affiliate or related undertaking of the licensee):
 - (i) do not involve a cross-subsidy being either given to the Transmission Business by such other business or received from the Transmission Business by such other business;

- (ii) obtain for the Transmission Business, in the most efficient and economical manner possible, the use of the relevant premises, systems, equipment, facilities, property or personnel; and
- (iii) do not restrict, distort or prevent competition in the generation or supply of electricity,

provided that the licensee shall not thereby be relieved of any obligation imposed on it by EU Directive 96/92/EC.

- 10. Where, subsequent to the issue of a direction pursuant to paragraph 9 of this condition, the criteria set out at sub-paragraphs 9(a), (b) or (c) cease to be satisfied, the Authority may withdraw the direction or modify any terms and conditions which may be specified in it.
- 11. For the purposes of paragraphs 9 and 10 of this condition the Authority shall, following consultation with the licensee, determine any question as to whether the criteria set out at sub-paragraphs 9(a), (b) or (c) are or continue to be satisfied.
- 12. If the Authority is requested to issue any direction pursuant to paragraph 9 of this condition relating to the Transmission Business being managed or operated by the licensee together with any distribution business then that direction may provide that for the purposes of this condition and of sSpecial eCondition €2B (Restriction on use of certain information) the Transmission Business shall be taken to include any such distribution business and for the Managing Director of Transmission to take part in the management of and/or to be a :director of any company carrying on any such distribution business.
- 13. In this condition

"appropriate time"

means 3 months, or such shorter period as the Authority may approve in respect of any person or class of persons.

"external transmission activities"

means any business of the licensee or any affiliate or related undertaking of the licensee comprising or ancillary to the maintenance, repair or operation in an emergency of any electricity distribution system or any part of the ~~national electricity transmission system~~ National Electricity Transmission System other than the licensee's Transmission System.

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), Standard Condition D2 (Obligation to provide transmission services), and Standard Condition D3 (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) of this condition in accordance with Part C of this condition.
- 2J.5 Approval by the Authority under paragraph 2J.3(a) of this condition 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 will take to coordinate with the System Operator and/or other Transmission Owners as appropriate to ensure that planned 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) of this condition; and
- (d) a description of the licensee's communication and coordination strategy for interacting with the System Operator 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 and/or 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 submission made by the System Operator and/or other Transmission Licensees.
- 2J.12 The licensee must supply the further information 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 this Part C, the licensee must ensure that the NAP made available under paragraph 2J.16 of this condition is updated within 5 working days of the Authority granting approval under paragraph 2J.13 (a) of this condition.

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;

- (b) a progress report on the implementation of the licensee's strategy under paragraph 2K.2 of this condition 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 under 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) 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;
- (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 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 refers 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).
- 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	7	0	0	49
2	Transformer	Units	2	0	2	21
3	Reactors	Units	2	0	0	0
4	Underground Cable	Km	0	0	0	13.7
5	OHL conductor	Km	143	454	115	680
6	OHL fittings	Km	0	206	201	985
7	OHL towers	Units	0	409	416	1425
275KV Network						
1	Circuit Breaker	Units	30	20	0	105
2	Transformer	Units	8	19	9	44
3	Reactors	Units	5	0	0	8

4	Underground Cable	Km	0	0	0	90.4
5	OHL conductor	Km	57	310	58	419
6	OHL fittings	Km	0	259	84	502
7	OHL towers	Units	0	118	55	1148
132KV Network						
1	Circuit Breaker	Units	26	13	0	165
2	Transformer	Units	26	25	12	80
3	Reactors	Units	0	1	0	0
4	Underground Cable	Km	0	0	0	160.1
5	OHL conductor	Km	0	525	308	655
6	OHL fittings	Km	0	251	436	802
7	OHL towers	Units	0	931	572	2041

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 Replacement Outputs to those specified in Table 1 of this condition.

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

- 2M.6 By 31 July 2021 the licensee must provide a report to the Authority (the “Performance Report”) 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 must 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.

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

Incentives	Justified	Unjustified
Material 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</p>	<p>Cost of over-delivery shall be included in the second price control period allowances</p> <p>The licensee shall incur the</p>

Incentives	Justified	Unjustified
	investment shall be reimbursed Reward of 2.5 per cent of the additional costs associated with the material overdelivery	financing cost of earlier investment
Under-delivery	Cost of under-delivery shall be excluded from the second price control period allowances The licensee shall benefit from the financing cost of delayed investment	Cost of under-delivery shall be excluded from the second price control period allowances The benefit arising to the licensee from the financing cost of delayed investment shall be clawed back Penalty of 2.5 per cent of the avoided costs associated with the material underdelivery

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	66.806
2014/15	68.905
2015/16	70.500
2016/17	81.811
2017/18	90.590
2018/19	89.877
2019/20	96.857
2020/21	78.323

Special Condition J8-2N. Provision of Information to the System Operator

1. On or before 1 November of the relevant year t-1, the licensee shall notify the ~~system operator~~ System Operator of its best estimate for the amounts TSP_t in respect of the relevant year t, where:

TSP_t means an amount no more than $TO_t - EXS_t$

where

TO_t means the allowed transmission owner revenue in the relevant year t calculated in accordance with ~~sSpecial eCondition J23A (Restriction of Transmission Network Revenue~~ transmission charges: revenue from transmission owner services); and

EXS_t means the connection charges, if any, which are remunerated under ~~sSpecial eCondition 3AJ2 (Restriction of transmission charges: revenue from transmission owner services)~~ in respect of connections made after the grant of this licence and for the avoidance of doubt, such charges may include charges for the operation and maintenance of the relevant connection

and where the aggregate of TSP_t and EXS_t is equivalent to the ~~R~~ regulated T ~~transmission R~~ transmission revenue of the licensee in relevant year t.

2. The licensee shall keep under review the estimates notified to the ~~system operator~~ System Operator pursuant to paragraph 1 and, if at any time, the licensee reasonably considers that the value of TSP_t , notified to the ~~system operator~~ System Operator will be significantly different from the estimates previously notified to the ~~system operator~~ System Operator, the licensee shall notify the ~~system operator~~ System Operator of the updated value for TSP_t as soon as reasonably practicable.

3. By 30 April of each relevant year t, the licensee shall provide the Authority with a statement showing the following:

- (a) the value of TSP_t notified to the ~~system operator~~ System Operator in the relevant year t-1 and the method of calculation including the values for EXS_t ;
- (b) the aggregate amounts of the licensee's connection charges in relevant year t-1 which are remunerated under ~~sSpecial eCondition J23A (transmission charges: revenue from transmission owner services)~~, identifying separately amounts in relation to connections made prior to the grant of this licence and amounts in relation to connections made after the grant of this licence;
- (c) the aggregate amount of the licensee's connection charges in relevant year t-1 which are not remunerated under ~~sSpecial eCondition J23A (transmission charges: revenue from transmission owner services)~~; and

- (d) the aggregate amount of the licensee's charges in relevant year t-1 in respect of outage charges.

Chapter 3: Transmission – Revenue Restriction

SpecialCondition 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 Allowed Transmission Owner Revenue that may be recovered by the licensee through Transmission Network Charges; and
- (b) to set out the obligations of 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, Regulated Transmission Revenue (TNR_t) does not exceed Allowed Transmission Owner Revenue (TO_t) in that year.

Part B: Calculation of Allowed Transmission Owner Revenue (TO_t)

3A.3 Allowed Transmission Owner Revenue, in Relevant Year t, is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$TO_t = BR_t + PT_t + OIP_t + NIA_t + TIRG_t - K_t$$

3A.4 In the Principal Formula:

- TO_t means the amount of Allowed Transmission Owner 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).
- $TIRG_t$ means, for each Relevant Year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Schedule C of Special Condition 3J (Transmission Investment for Renewable Generation), as derived in accordance with that condition.
- 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 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).

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 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:

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.

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:

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

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.

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 A 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 A 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 A 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:

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

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 J2 (Restriction of transmission charges: revenue from Transmission Owner Services) 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 J2 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 J3 (Restriction of transmission charges: 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 J3 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 J3 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 J7 (Capital Expenditure Incentive and Safety Net) of this licence in the form in which it was in force at 31 March 2013.
RV _{t-2}	means, in respect of the Relevant Year commencing 1 April 2012, the network rates allowance as represented by the amount set out in Special Condition J4 (Restriction of transmission charges: Allowed pass-through items) 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:

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

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).
CONADJ _t	means the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to offers of timely connection as derived in accordance with Part C of Special Condition 3G (Financial Incentive for Timely Connections Output).

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:

TNR_{t-2} means the Regulated Transmission Revenue as defined in Special Condition 1A (Definitions and Interpretation) in respect of Relevant Year t-2.

TO_{t-2} means the Allowed Transmission Owner 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 Regulated Transmission Revenue in respect of the Relevant Year commencing 1 April 2012 as defined in Special Condition J1 of this licence in the form in which it was in force at 31 March 2013.

TO_{t-1} means the Allowed Transmission Owner Revenue in respect of the Relevant Year commencing 1 April 2012 as derived in accordance with Special Condition J2 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, Regulated Transmission Revenue exceeds 104 per cent of Allowed Transmission Owner Revenue, PR_t will have the value of 4;
- (b) if, in respect of Relevant Year t-2, Regulated Transmission Revenue is less than 96 per cent of Allowed Transmission Owner 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, Regulated Transmission Revenue exceeds 102 per cent of Allowed Transmission Owner Revenue, PRO_t will have the value of 4; and
- (b) in all other cases PRO_t will have the value zero.

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

3A.19 Paragraph 3A.20 of this condition applies from 1 April 2016.

3A.20 If, in respect of two successive Relevant Years t-2 and t-3, the licensee's Regulated Transmission Revenue in each of those Relevant Years exceeds 108 per cent of Allowed Transmission Owner 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 of this condition applies from 1 April 2016.

3A.22 If, in respect of two successive Relevant Years t-2 and t-3, the licensee's Regulated Transmission Revenue in each of those Relevant Years is less than 92 per cent of the Allowed Transmission Owner 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 endeavors in setting Transmission Network Charges to recover Allowed Transmission Owner 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
SP Transmission Ltd	225.122	236.950	258.633	244.655	249.439	253.065	256.445	254.238

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 Allowed Transmission Owner 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"):

$$PT_t = RB_t + TPD_t$$

- 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.

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

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 of this condition, 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 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 temporary physical disconnection term (TPD_t)

3B.9 For the purposes of the Principal Formula, subject to paragraph 3B.11 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.10 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 $t-2$ in accordance with the provisions of the STC as defined in Standard Condition A1.

$RPIA_{t-2}$ 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 Year 2013/14 TPD_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
SP Transmission Ltd	24.100	24.100	24.100	24.100	24.100	24.100	24.100	24.100

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)

- 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 J5 (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).

ENST_{t-2} is the incentivised loss of supply volume target in Relevant Year $t-2$, and has the value of 225 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 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 regulatory period be changed as a result of any proposed revisions to the 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:

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

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.
SSI _{t-2}	(the Stakeholder Satisfaction Incentive term) means the adjustment that is required in respect of the licensee's performance in Relevant Year t-2 in relation to the measures set out in Part D below, and is calculated in accordance with the provisions of Part D.
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).
- 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 of this condition, 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 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 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 Stakeholder Satisfaction Incentive

3D.11 The value of the SSI_t term (relating to the Stakeholder Satisfaction Incentive) is derived in accordance with the following formula:

$$SSI_{t-2} = 0.01 \times (X * SS_{t-2} + Y * SKPI_{t-2} + Z * SEA_{t-2}) \times (BR_{t-2} + TIRG_{t-2})$$

where:

SS_{t-2} means the adjustment factor in respect of the licensee’s performance in Relevant Year t-2 in the Stakeholder Satisfaction Survey as provided for in Part E of this condition. The value of SS_{t-2} will be determined by the formula:

$$SS_{t-2} = \max(\min((SSC_{t-2}-AA) \times 0.25),1),-1)$$

where

SSC_{t-2} means the licensee’s Stakeholder Satisfaction Score in respect of Relevant Year t-2, being a value between 1 and 10 inclusive, based on responses to the question in relation to overall stakeholder satisfaction specified in paragraph 3D.15 of this condition.

SKPI_{t-2} means the adjustment factor in respect of the licensee’s performance in Relevant Year t-2 against the Key Performance Indicators as provided for in Part F of this condition. The value of SKPI will be determined by the formula:

$$SKPI_{t-2} = \max(\min((KPI_{t-2} - BB) \times 0.025),1),-1)$$

where

KPI_{t-2} means the licensee’s measured score against its Key Performance Indicators, being a value between 0 and 100 inclusive.

SEA_{t-2} means the adjustment in respect of the licensee’s performance in Relevant Year t-2 in its External Assurance of its Stakeholder Engagement as provided for in Part G of this condition. The value of SEA will be determined by the banding table below:

SEA Band	SEA_{t-2} value
Non-Compliant with stakeholder strategy	-1.0
Compliant with stakeholder Strategy	0.5
Exceeding stakeholder strategy	1.0

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).

3D.12 The licensee must submit proposed values for the terms X, Y and Z and the terms AA and BB in Part D of this condition within 30 days of 1 April 2013. The Authority will determine values for these terms taking account of this submission.

Part E: Stakeholder Satisfaction Survey

3D.13 Unless otherwise agreed with the Authority, the licensee must carry out a survey at least once a year to assess stakeholder satisfaction with its activities (the Stakeholder Satisfaction Survey).

3D.14 The licensee may include such questions as it deems appropriate, subject to the inclusion of one question that asks for overall stakeholder 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.

Part F: Key Performance Indicators

3D.18 The licensee must, within one month of this condition entering into force, submit Key Performance Indicators to the Authority for approval for use in relation to Part D of this condition.

3D.19 The licensee must set out in its proposed Key Performance Indicators the methodology that will be used to derive an overall Key Performance Score for use in deriving the term SKPI_{t-2}.

3D.20 Where the licensee has complied with the requirements of paragraphs 3D.18 and 3D.19 of this condition, it must, unless the Authority has within 28 days of the report being furnished to it given a direction that the modification may not be made, implement the proposed Key Performance Indicators.

3D.21 Unless the Authority makes a direction under paragraph 3D.20 of this condition, the licensee must within ten working days of the expiration of the period referred to in paragraph 3D.20 make a copy of the Key Performance Indicators available on its website.

- 3D.22 The licensee must report annually on its performance against these Key Performance Indicators in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).
- 3D.23 The licensee must review the Key Performance Indicators at least once every two years to ensure that they continue to provide an objective measure of the service provided.
- 3D.24 The licensee must, subject to paragraphs 3D.25 and 3D.26 of this condition, make such modifications to its Key Performance Indicators as may be required to better measure the service provided.
- 3D.25 Before making a modification to the Key Performance Indicators, the licensee must furnish the Authority with a report setting out:
- (a) the proposed modification to the Key Performance Indicators;
 - (b) the details of consultation undertaken with stakeholders on the proposed modification;
 - (c) any representations made to the licensee in respect of the Key Performance Indicators and/or the proposed modification;
 - (d) how the proposed modification provides a better measure of the service provided, including an explanation of the additions/removals proposed and how these improve the Key Performance Indicators; and
 - (e) a timetable for the implementation of the proposed modification, provided that no modification may be implemented prior to the date on which the period referred to in paragraph 3D.26 of this condition expires.
- 3D.26 Where the licensee has complied with the requirements of paragraph 3D.25 of this condition, it must, unless the Authority has within 28 days of the report being furnished to it given a direction that the modification may not be made, implement the modification to the Key Performance Indicators.
- 3D.27 Where a modification is made, the Authority will propose any corresponding changes to the specific reporting arrangements in accordance with Standard Condition B15 (Regulatory Instructions and Guidance) as it considers appropriate.

Part G: External Assurance of Stakeholder Engagement

- 3D.28 The licensee must, within one month of this condition entering into force, submit External Assurance Methodology and Terms of Reference to the Authority for approval for use in relation to Part D of this condition.
- 3D.29 The licensee must set out in its proposed External Assurance Methodology and Terms of Reference the methodology that will be used to derive an overall External Assurance Score for use in deriving term SEA_{t-2} .
- 3D.30 Where the licensee has complied with the requirements of paragraphs 3D.28 and 3D.29 of this condition, it must, unless the Authority has within 28 days of the report being furnished to it given a direction that the External Assurance Methodology and Terms of Reference may not be used, implement the proposed External Assurance Methodology and Terms of Reference.

- 3D.31 The licensee must report annually on its performance against External Assurance Methodology and Terms of Reference in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).
- 3D.32 The licensee must review the External Assurance Methodology and Terms of Reference at least once every two years to ensure that they provide an objective measure of the inclusion of stakeholder views.
- 3D.33 The licensee must, subject to paragraphs 3D.34 and 3D.35 of this condition, make such modifications to its External Assurance Methodology and Terms of Reference as may be required to better assess the inclusion of stakeholder views.
- 3D.34 Before making a modification to the External Assurance Methodology and Terms of Reference, the licensee must furnish the Authority with a report setting out:
- (a) the proposed modification to the External Assurance Methodology and Terms of Reference;
 - (b) the details of consultation undertaken with stakeholders on the proposed modification;
 - (c) any representations made to the licensee in respect of the External Assurance Methodology and Terms of Reference and/or the proposed modification;
 - (d) how the proposed modification provides a better assessment of the inclusion of stakeholder views, including an explanation of the additions/removals proposed and how these improve the assessment of stakeholder views; and
 - (e) a timetable for the implementation of the proposed modification, provided that no modification may be implemented prior to the date on which the period referred to in paragraph 3D.35 of this condition expires.
- 3D.35 Where the licensee has complied with the requirements of paragraph 3D.34 of this condition, it must unless the Authority has within 28 days of the report being furnished to it given a direction that the modification may not be made, implement the modification to the External Assurance Methodology and Terms of Reference.
- 3D.36 Where a modification is made, the Authority will propose any corresponding changes to the specific reporting arrangements in accordance with Standard Condition B15 (Regulatory Instructions and Guidance) as it considers appropriate.

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_t) 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_t is equal to zero. For each subsequent Relevant Year, the value of SFI_t 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.
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 of this condition 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 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.9 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 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; 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 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 issue 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:

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

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

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

Special Condition 3G. Financial Incentive for Timely Connections Output

Introduction

- 3G.1 The purpose of this condition is to calculate the value of the financial incentive (the $CONADJ_t$ term) to reflect the licensee's performance in relation to delivering timely offers for connection to the licensee's transmission network.
- 3G.2 The effect of the application of the $CONADJ_t$ term in Special Condition 3A (Restriction of Transmission Network Revenue) is to adjust downwards the Output Incentive Revenue Adjustment (OIP_t) term in Part D of that condition.

Part A: Relationship with existing obligations

- 3G.3 The licensee must offer connection terms in accordance with Standard Condition D4A (Obligations in relation to offers for connections etc.) and through this paragraph 4.8, Part 2, Section D of the STC (subject to paragraph 4.9 of that same Part).
- 3G.4 Where under Standard Condition D4A, the Authority consents to a longer period of time than the above requirements, this will be the relevant time for the assessment of timely offering of connection terms in this/these case(s).
- 3G.5 This condition is without prejudice to the Authority's licence enforcement powers. Any revenue reduction under this condition is additional to the Authority's potential enforcement powers.

Part B: Process for assessing performance

- 3G.6 By 1 November each year from 1 November 2014, the Authority will consider whether the licensee has offered timely connection terms during the Relevant Year $t-1$.
- 3G.7 Where the licensee has offered terms in accordance with its licence or as otherwise consented to by the Authority, no revenue reduction will be made.
- 3G.8 Where the licensee fails to offer terms in accordance with its licence or as otherwise consented to by the Authority, the Authority may give notice of a revenue reduction.
- 3G.9 Where the Authority intends to give notice of a revenue reduction, it will notify the licensee in advance and allow the licensee to make representations which it will consider before deciding whether to give notice of a revenue reduction.
- 3G.10 As set out in Part C of this condition, that revenue reduction will be subject to a maximum cap of 0.5% of the sum of the licensee's Base Transmission Revenue and Transmission Investment for Renewable Generation.
- 3G.11 The level of revenue reduction will be proportionate to the number of connections in respect of which the licensee is unable to offer terms in accordance with the times specified in their licence condition and the STC or as otherwise consented to by the Authority.

Part C: Revenue adjustment formulae

3G.12 CONADJ_t is the adjustment made to annual revenue from 1 April of any Relevant Year t through a notice served by the Authority following its assessment of the licensee's performance in Relevant Year t-2.

3G.13 In any Relevant Year t the value of CONADJ_t will be specified in the notice subject to paragraph 3G.9 above and calculated in accordance with the following formula:

$$\text{CONADJ}_t = \left(\frac{\text{Untimely offers}_{t-2}}{\text{Total offers}_{t-2}} \right) \times 0.005 \times (\text{BR}_{t-2} + \text{TIRG}_{t-2}) \times \left(1 + \frac{I_{t-2}}{100} \right) \times \left(1 + \frac{I_{t-1}}{100} \right)$$

where:

Untimely Offers _{t-2}	are connection offers made other than in accordance with the requirements set out in paragraph 4.8, Part 2, Section D of the STC (subject to paragraph 4.9 of that same Part).
Total Offers _{t-2}	are total connection offers which are the sum of Untimely Offers and those offers consistent with the specified time in the paragraph and condition(s) set out in paragraph 4.8, Part 2, Section D of the STC (subject to paragraph 4.9 of that same Part).
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 (Restriction of Transmission Network Revenue) for that year.
TIRG _{t-2}	means the value of the Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation).
I _t	means the Average Specified Rate in Relevant Year t.

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:

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

where:

- $PTRA$ 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 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 (provided that, 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 be more than £175,000 in total or 5% of the amount applied for by the group under the Network Innovation Competition, as defined in Special Condition 3I (the Network Innovation Competition) whichever is less in the Relevant Year t except insofar as the Authority consents otherwise).

$NIAV$ 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 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;
- (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 and revising 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 (%)
SP Transmission Ltd	0.5

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) with respect to the funding of innovative low carbon or environmental projects carried out by the licensee.
- 3I.2 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.3 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of payments received from the System Operator in accordance with the determination process described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.

Part B: The NIC Funding Mechanism

- 3I.4 The NIC Funding Mechanism is the mechanism by which the licensee receives the amount of authorised NIC Funding in any Relevant Year from the System Operator, less any Funding Return as described in Part C of this condition and in accordance with the NIC Governance Document.

Part C: The Funding Return Mechanism

- 3I.5 The Funding Return Mechanism relates to payments to be made by the licensee to the System Operator, as maybe relevant in each of the following cases to such extent (if any) as may be relevant, of:
- (a) Halted Project Revenues;
 - (b) Disallowed Expenditure; and
 - (c) Returned Royalty Income.
- 3I.6 The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 3I.5 of this condition.
- 3I.7 Halted Project Revenues are any revenues received by the licensee from the System Operator 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.8 Disallowed Expenditure is any revenue received by the licensee from the System Operator 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.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the Licensee, 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.10 For the purposes of paragraph 3I.9 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated by Base Transmission Revenue as defined in Special Condition 3A, Excluded Services, or the NIC Funding Mechanism.
- 3I.11 In each Relevant Year *t*, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:
- (a) the amount of any Funding Return that the licensee must pay to the System Operator; and
 - (b) the manner in which and the timescale over which that amount is to be so paid.
- 3I.12 The licensee must comply with any direction that is issued by the Authority under paragraph 3I.11 of this condition.

Part D: Determination of the NIC term

- 3I.13 The NIC term is the net amount of NIC Funding less any Funding Return for the Relevant Year *t* that is to be paid to the licensee by the System Operator, or vice versa, in compliance with the determination made for that purpose in a direction issued by the Authority pursuant to the provisions of Part D of Special Condition 3I (The Network Innovation Competition) in the Transmission Licence held by the System Operator.
- 3I.14 The NIC Funding to which paragraph 3I.4 of this condition refers is the proportion (if any) of total NIC Funding raised by the System Operator from its Transmission Network Charges in accordance with the NIC Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible NIC Projects, as adjusted by the amount of any Funding Return (as to which, see Part C above).
- 3I.15 In each Relevant Year *t*, as provided for by the NIC Governance Document and in accordance with the appropriate provisions of the System Operator's Transmission Licence, 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 net amount of the NIC term (whether negative or positive);
 - (b) how the amount of that term has been calculated, taking account of any Funding Return; and
 - (c) the manner in which and the timescale over which the System Operator is required to transfer that amount to the licensee or vice versa.

Part E: The NIC Governance Document

- 3I.16 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.17 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;

- (a) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);
- (b) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
- (c) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other electricity Transmission Licensees;
- (d) 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);
- (e) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
- (f) any other matters relating to the regulation, governance, or administration of the NIC.

3I.18 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.19 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, must:

- (a) state that it proposes to issue the NIC Governance Document, and specify the date on which it proposes that the document should take effect;
- (b) set out the text of the NIC Governance 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.20 The Authority will consider any representations that are duly made.

3I.21 The requirements of paragraphs 3I.19 and 3I.20 of this condition may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

3I.22 In paragraph 3I.19 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.23 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 A – TIRG Revenue allowance

3J.1 For the purposes of ~~paragraph 3J.3 of special condition ETC-20~~ Special Condition ~~{x}~~3A (Restriction of Transmission Network Revenue) ~~(Restriction of transmission charges: revenue from transmission owner services)~~ for each TIRG Rrelevant Yyear t, TIRG_t ~~wi~~shall be calculated in accordance with the following formula:

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

where

TIRG_tⁱ means the annual revenue allowance in TIRG Rrelevant Yyear t for each transmission investment project i specified in Schedule C of this condition.

3J.2 For each TIRG Rrelevant Yyear t, the annual revenue allowance for each transmission investment project i specified in Schedule C of this condition ~~wi~~shall 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 Rrelevant Yyears t=p to t=-1 (where p≤-1) and ~~wi~~shall be calculated in accordance with paragraph ~~h~~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~~ TIRG Income Adjusting Event and each revenue allowance adjustment ~~wi~~shall be determined by the Authority (in 2009/10 prices) 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 Rrelevant Yyears t=0 to t=n and ~~wi~~shall 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 Rrelevant Yyears t=n+1 to t=n+5 and ~~wi~~shall be calculated in accordance with paragraph 3J.7 of this condition.

$ATIRG_t^i$ means the actual annual revenue allowance for the transmission investment project i for the TIRG Rrelevant Yyears t=n+6 to t=n+20 and ~~wi~~shall be determined by the Authority in accordance with paragraph 3J.9 of this condition.

3J.3 For the purposes of paragraph 3J.2 of this condition, the term $IPTIRG_t^i$ shall be calculated in accordance with the following formula:

$$IPTIRG_t^i = CFTIRG_t^i \times RPIF_t$$

where:

$CFTIRG_t^i$ means the forecast preconstruction and contingency costs for the transmission investment project i for TIRG Relevant Years $t=p$ to $t=-1$ (where $p \leq -1$) and shall have the value specified in Schedule C of this condition for each TIRG Relevant Year t, and where no value is specified in Schedule C for a TIRG Relevant Year t shall have the value of zero.

$RPIF_t$ has the value given to it by Part C of [ETC20] Special Condition [x]3A (Restriction of Transmission Network Revenue). ~~shall have the same meaning as given in paragraph 3 of special condition ETC 20.~~

3J.4 For the purposes of this paragraph condition, a ~~TIRG income adjusting event~~ TIRG Income Adjusting Event means:

- (a) means an event or circumstance occurring in the preconstruction 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 $p \leq -1$) ($CFTIRG_t$);
 - (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~~ TIRG Income Adjusting Event has occurred in respect of the transmission investment project i, then the licensee must ~~shall~~ 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 ~~shall~~ 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;
 - (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 ~~wish~~ shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a ~~TIRG income adjusting event~~ 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) ~~wish~~ shall 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~~ 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) ~~wish~~ shall be zero.
- (f) Where the Authority makes a determination under this paragraph, the Authority ~~wish~~ shall 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 of this condition, the term $TIRGIncAd^i$ will be the $TIRGIncAd^i$ 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~~ TIRG Income Adjusting Event under subparagraph (b), the licensee must ~~shall~~ 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.

3J.5 For the purposes of paragraph 3J.2 of this condition, the term $FTIRG_t^i$ will be calculated in accordance with the following formula:

$$FTIRG_t^i = (CCTIRG \times (FTIRGC_t^i + AFFTIRG_t^i) \times RPIF_t) + (FTIRGDepn_t^i + AFFTIRGDepn_t^i) \times RPIF_t$$

where:

CCTIRG means the pre-tax cost of capital in real terms for the transmission investment project i for each TIRG Rrelevant Yyear 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 Rrelevant Yyears $t=0$ 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 , $FTIRGC_t^i$ will be zero; and
- (ii) where the licensee has been granted planning consent to build the transmission investment project i , $FTIRGC_t^i$ will have the value specified in Schedule C of this condition for each TIRG Rrelevant Yyear t , and where no value is specified in Schedule C for a TIRG Rrelevant Yyear t will have the value of zero.

AFFTIRG_tⁱ means one or more -adjustments to the average asset value for the transmission investment project i for the TIRG Rrelevant Yyear $t=0$ to $t=n$ ($FTIRGC_t^i$) as a result of a ~~TIRG asset value adjusting event~~ TIRG Asset Value Adjusting Event and each adjustment will be determined by the Authority (in 2009/10 prices) in accordance with paragraph 3J.6 of this condition.

RPIF_t has the value given to it by Part C of ~~[ETC20] Special Condition [x] 3A~~ (Restriction of Transmission Network Revenue). ~~will have the same meaning as given in paragraph 3 of special condition ETC 20.~~

FTIRGDepn_tⁱ means the depreciation value for the transmission investment project i for each of the TIRG Rrelevant Yyears t=0 to t=n and wishall be determined as follows:

(i) ~~where the licensee has not been granted planning consent to build the transmission investment project i, FTIRGDepn_tⁱ wishall be zero; and~~

~~(i) _____~~

(ii) where the licensee has been granted planning consent to build the transmission investment project i, FTIRGDepn_tⁱ wishall have the value specified in schedule C for each TIRG Rrelevant Yyear t, and where no value is specified in Schedule C for a TIRG Rrelevant Yyear t wishall have the value of zero.

AFFTIRGDepn_tⁱ means one or more adjustments to the depreciation value for the transmission investment project i for the TIRG Rrelevant Yyears t=0 to t=n (FTIRGDepn_tⁱ) as a result of a ~~TIRG asset value adjusting event~~TIRG Asset Value Adjusting Event_ and each adjustment wishall be determined by the Authority (in 2009/10 prices) in accordance with paragraph 3J.6 of this condition.

3J.6

(a) For the purposes of this ~~paragraph~~condition, a ~~TIRG asset value adjusting event~~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 Rrelevant Yyears t=0 to t=n (FTIRGC_tⁱ);~~

~~(i) _____~~

~~(ii) are expected to be efficiently incurred or saved; and~~

~~(ii) _____~~

(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 Rrelevant Yyears 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~~

~~(i) _____~~

- (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~~ TIRG Asset Value Adjusting Event has occurred in relation to the transmission investment project i, then the licensee must ~~shall~~ 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 R_{relevant Year 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 ~~shall~~ 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 ~~shall~~ give particulars of:
 - (i) the ~~TIRG asset value adjusting event~~ 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~~ 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 R_{relevant Years t=0 to t=n} ($FTIRGC_t^i$) 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 condition;
 - (v) the amount of any $AFFTIRG_t^i$ adjustment proposed as a consequence of that event and how this $AFFTIRG_t^i$ 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 R relevant Y years $t=0$ to $t=n$ ($FTIRGDepn_t^i$) 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 $AFFTIRGDepn_t^i$ adjustment proposed as a consequence of that event and how this $AFFTIRGDepn_t^i$ 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 ~~wi~~shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a ~~TIRG asset value adjusting event~~ 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~~ 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~~ TIRG Asset Value Adjusting Event;
 - (iii) a $AFFTIRG_t^i$ adjustment in respect of the transmission investment project i ; and
 - (iv) a $AFFTIRGDepn_t^i$ adjustment in respect of the transmission investment project i .
- (f) Where the Authority determines under subparagraph (e) that a ~~TIRG asset value adjusting event~~ 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~~ TIRG Asset Value Adjusting Event, the $AFFTIRG_t^i$ and $AFFTIRGDepn_t^i$ adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) ~~wi~~shall 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~~ TIRG Asset Value Adjusting Event had not occurred, and in all other cases the $AFFTIRG_t^i$ and $AFFTIRGDepn_t^i$ adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) ~~wi~~shall be zero.
- (g) Where the Authority makes a determination under this paragraph, the Authority ~~wi~~shall publish a notice stating the $AFFTIRG_t^i$ and

AFFTIRGDepn_tⁱ 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_tⁱ and AFFTIRGDepn_tⁱ shall be the AFFTIRG_tⁱ and AFFTIRGDepn_tⁱ 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) shall be zero.
- (j) Where the licensee notifies the Authority of a ~~TIRG asset value adjusting event~~ TIRG Asset Value Adjusting Event under subparagraph (c), the licensee must ~~shall~~ 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.

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

$$\begin{aligned}
 \text{ETIRG}_t^i &= (\text{CCTIRG} \times (\text{ETIRGC}_t^i + \text{SAFTIRG}^i) \times \text{RPIF}_t) \\
 &+ ((\text{Dep}_t^i \times \text{SAFTIRG}^i) \times \text{RPIF}_t)
 \end{aligned}$$

where:

CCTIRG shall 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 Rrelevant Yyears_{t=n+1 to t=n+5} and shall have the value specified in Schedule C of this condition for each TIRG Rrelevant Yyear t, and where no value is specified in Schedule C for a TIRG Rrelevant Yyear t shall have the value of zero.

SAFTIRGⁱ means an adjustment factor to the average asset value for the transmission investment project i for each of the TIRG Rrelevant Yyears_{t=n+1 to t=n+5} (ETIRGC_t) and shall have the value of 1 unless otherwise determined by the Authority by TIRG Rrelevant Yyear t=n+1 in accordance with the following formula:

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

where:

SAFTIRGⁱ means the opening asset value for the transmission investment project i determined by the Authority

by TIRG R_{relevant} Y_{year t=n+1} in accordance with paragraph 3J.8 of this condition.

ETIRGORAVⁱ means the opening regulated asset value for the transmission investment project i at TIRG R_{relevant} Y_{year t=n+1} and will have the value specified in Schedule C of this condition.

RPIF_t has the value given to it by Part C of ~~ETC 20~~ Special Condition ~~[x]~~ 3A (Restriction of Transmission Network Revenue). ~~shall have the same meaning as in paragraph 3 of special condition ETC 20.~~

Depn_tⁱ means the annual depreciation allowance for TIRG R_{relevant} Y_{year t} and will have the value specified in Schedule C of 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 R_{relevant} Y_{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 paragraph 3J.10 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 Schedule C of 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 R_{relevant} Y_{years t=0 to t=n} under paragraph 3J.6 of this condition (AFFTIRG_tⁱ adjustment);
 - (iv) whether an adjustment has been made to the depreciation value for the transmission investment project i for the TIRG R_{relevant} Y_{years t=0 to t=n} under paragraph 3J.6 of this condition (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.

3J.9 For the purposes of paragraph 3J.2 of this condition, the term $ATIRG_t^i$ ~~wi~~shall be determined by the Authority (in consultation with the licensee and such other persons the Authority considers necessary) by $TIRG R_{\text{relevant } Y_{\text{year } t=n+5}}$ in accordance with the principle that efficiently incurred costs ~~wi~~shall be recoverable by the licensee.

Part B: 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 Schedule C of this condition, the licensee must ~~sh~~all provide the Authority with the following:

- (a) during or prior to $TIRG R_{\text{relevant } Y_{\text{year } t=0}}$, 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 Schedule C of this condition for the transmission investment project i ; and
 - (ii) the $TIRG_{t=n}$ forecast output measures assessed against the forecast output measures in Schedule C of this condition for the transmission investment project i ;
- (b) not later than three months after the end of each of the $TIRG R_{\text{relevant } Y_{\text{years } t=p \text{ to } t=0}}$ (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 $TIRG R_{\text{relevant } Y_{\text{year } t}}$;
- (c) not later than three months after the end of each of the $TIRG R_{\text{relevant } Y_{\text{years } t=1 \text{ to } t=n}}$ (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 $TIRG R_{\text{relevant } Y_{\text{year } t}}$; and
- (d) not later than three months after the end of $TIRG R_{\text{relevant } Y_{\text{year } t=n}}$ (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 $TIRG R_{\text{relevant } Y_{\text{years } t=0 \text{ to } t=n}}$ ($FTIRG_C$); 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 Schedule C of 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 Schedule C of this condition may be amended in accordance with this paragraph.

- (a) For the purposes of this ~~paragraph~~ condition, an ~~output measures adjusting event~~ Output Measures Adjusting Event means a relevant amendment to the scope of the construction works (as defined in paragraph ~~3J.(6)(b)(ii)~~ of this condition which the Authority is satisfied is expected to cause a material change in the output measures specified in ~~§~~ Schedule C of this condition for the transmission investment project i.
- (b) Where the licensee considers, and can provide supporting evidence that, an ~~output measures adjusting event~~ Output Measures Adjusting Event has occurred in relation to the transmission investment project i, then the licensee ~~shall~~ 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 R ~~relevant Y~~ 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 (e**b**) must ~~shall~~ be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and must ~~shall~~ give particulars of:
 - (i) the ~~output measures adjusting event~~ 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 (e**b**), the Authority ~~wi~~ shall determine (after consultation with the licensee and such other persons it considers necessary):
 - (i) whether an ~~output measures adjusting event~~ 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~~ 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.

**SCHEDULE C: SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION 3J
(Transmission Investment for Renewable Generation)**

Beaulieu-Denny

Pre-construction, contingency and construction costs

Project costs (£ 000) 2009/10 prices	t=p	t=-1	t=0	t=1	t=2	t=n
Forecast pre-construction and contingency costs (CFTIRG _t ⁱ)	3,326	1,842	n/a	n/a	n/a	n/a
Forecast Construction Costs			20,993	22,450	12,729	2,523
Average asset value during construction period (FTIRG _t ⁱ)	n/a	n/a	10,496	31,692	48,564	53,652
Depreciation during Construction (FTIRGDepn _t ⁱ)			0	1,050	2,219	2,855

Post construction revenue

Project costs (£ 000) 2009/10 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV (ETIRGORAV _t ⁱ)	53,486				
Dep _t ⁱ	2,674	2,674	2,674	2,674	2,674
Average asset value during efficiency period (ETIRGC _t ⁱ)	52,149	49,474	46,800	44,126	41,452

B5 Boundary

Pre-construction, contingency and construction costs

Project costs (£ 000) 2009/10 prices	t=p	t=-1	t=0	t=1	t=n
Forecast pre-construction and contingency costs (CFTIRG _t ⁱ)	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs			3,511	6,987	1,671
Average asset value during construction period (FTIRGC _t ⁱ)	n/a	n/a	1,756	6,957	11,355
Depreciation during Construction (FTIRGDepn _t ⁱ)				178	549

Post construction revenue

Project costs (£ 000) 2009/10 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV (ETIRGORAV ⁱ)	11,209				
Dep _t ⁱ	560	560	572	572	572
Average asset value during efficiency period (ETIRGC _t ⁱ)	10,928	10,368	10,019	9,447	8,874

South west Scotland reinforcement

Pre construction, contingency and construction costs

Project costs (£ 000) 2009/10 prices	t=p	t=-1	t=0	t=1	t=n
Forecast pre-construction and contingency costs (CFTIRG _t ⁱ)	1,950	1,382	n/a	n/a	n/a
Forecast Construction Costs			229	26,147	16,170
Average asset value during construction period (FTIRGC _t ⁱ)			115	13,297	33,790
Depreciation during Construction (FTIRGDepn _t ⁱ)			0	11	1,319

Post construction revenue

Project costs (£ 000) 2009/10 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV (ETIRGORAV ⁱ)	41,215				
Dep _t ⁱ	2,061	2,061	2,061	2,061	2,061
Average asset value during efficiency period (ETIRGC _t ⁱ)	40,186	38,125	36,064	34,003	31,942

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=-1	t=0	t=1	t=2	t=n
Forecast pre-construction and contingency costs (CFTIRG _t ⁱ)	5,390	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs		10,725	31,827	28,294	12,053	5,725
Average asset value during construction period (FTIRGC _t ⁱ)	n/a	5,362	26,294	55,491	75,598	75,874
Depreciation during Construction (FTIRGDepn _t ⁱ)			532	2,148	3,711	4,058

Post construction revenue

Project costs (£ 000) 2009/10 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV (ETIRGORAV ⁱ)	76,702				
Dep _t ⁱ	3,836	3,919	3,919	3,919	3,919
Average asset value during efficiency period (ETIRGC _t ⁱ)	74,784	72,482	68,565	64,646	60,729

Sloy

Pre construction, contingency and construction costs

Project costs (£ 000) 2009/10 prices	t=p	t=-1	t=0	t=n
Forecast pre-construction and contingency costs (CFTIRG _t ⁱ)	459	230	n/a	n/a
Forecast Construction Costs			10,768	4,654
Average asset value during construction period (FTIRGC _t ⁱ)	n/a	n/a	5,384	13,264
Depreciation during Construction (FTIRGDepn _t ⁱ)				561

Post construction revenue

Project costs (£ 000) 2009/10 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV (ETIRGORAV ⁱ)	14,403				
Dep _t ⁱ	721	721	736	736	736
Average asset value during efficiency period (ETIRGC _t ⁱ)	14,043	13,322	12,874	12,139	11,402

Output measures

Beauly-Denny

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Upgrade from 275 kV to 400 kV									
Denny - Fort Augustus	Circuit does not presently exist.			Circuit does not presently exist.			400	2770	2510
Denny 400/275kV SGT	Circuit does not presently exist.			Circuit does not presently exist.			400/275	1000	1000
Denny – Braco	Circuit does not presently exist.			Circuit does not presently exist.			275	1500	1500
Denny - Lambhill	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
Denny - Longannet	Circuit does not presently exist.			Circuit does not presently exist.			275	1500	1500
Windyhill - Lambhill - Longannet	275	820	650	275	820	650	275	820	650
Denny - Bonnybridge No.1	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
Denny - Bonnybridge No.2	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
Denny 275/132kV SGT	Circuit does not presently exist.			Circuit does not presently exist.			275/132	240	240

Denny - Bonnybridge	Circuit does not presently exist.			Circuit does not presently exist.			132	240	240
Windyhill – Neilston	275	955	760	275	955	760	275	955	760
Longannet - Easterhouse	275	953	953	275	953	953	275	1500	1500
Longannet - Clyde's Mill	275	953	953	275	953	953	275	1500	1500
Easterhouse - Clyde's Mill	275	953	953	275	953	953	275	1500	1500

B5 Boundary

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Upgrade from 275 kV to 400 kV									
Windyhill – Neilston	275	955	760	275	955	760	275	955	760
Longannet – Easterhouse	275	953	953	275	953	953	275	1500	1500
Longannet – Clyde's Mill	275	953	953	275	953	953	275	1500	1500
Easterhouse – Clyde's Mill	275	953	953	275	953	953	275	1500	1500

South west Scotland

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Area connection infrastructure									
New Cumnock - Kilmarnock South	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
New Cumnock - Coylton	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
New Cumnock 275/132 'SGT1'	Circuit does not presently exist.			Circuit does not presently exist.			275/132	240	240
New Cumnock 275/132 'SGT2'	Circuit does not presently exist.			Circuit does not presently exist.			275/132	240	240
Tongland Quad. Booster	132	90	90	132	90	90	132	190	190

East coast Interconnection

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Line upgrade									
Eccles - Stella West No.1	400	1390	1110	400	1390	1110	400	2770	2420
Eccles - Stella West No.2	400	1190	1110	400	1190	1110	400	2770	2420
Gretna - Hawick	132	132	106	132	132	106	132	132	106
Gretna - Junction V - Hawick	Circuit does not presently exist.			Circuit does not presently exist.			132	132	106
Hawick - Galashiels	132	132	106	132	132	106	132	132	106

West coast Interconnection

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Line upgrade									
Strathaven - Coalburn	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Coalburn - Elvanfoot	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Elvanfoot - Harker	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Strathaven - Gretna	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Gretna - Harker	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Coalburn 400/132 'SGT1'	Circuit does not presently exist.			Circuit does not presently exist.			400/132	240	240
Coalburn 400/132 'SGT2'	Circuit does not presently exist.			Circuit does not presently exist.			400/132	240	240

Elvanfoot 400/25 'SGT1'	Circuit does not presently exist.			Circuit does not presently exist.			400/25	80	80
Elvanfoot 400/25 'SGT2'	Circuit does not presently exist.			Circuit does not presently exist.			400/25	80	80
Gretna 400/132 'SGT1'	Circuit does not presently exist.			Circuit does not presently exist.			400/132	240	240
Gretna 400/132 'SGT2'	Circuit does not presently exist.			Circuit does not presently exist.			400/132	240	240

Sloy

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Line reinforcements									
Inverarnan - Dalmally	Circuit does not presently exist.			Circuit does not presently exist.			275	760	620
Inverarnan - Windyhill	Circuit does not presently exist.			Circuit does not presently exist.			275	760	620

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 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 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 licence an amount estimated as being equal to the licensee's Allowed Security Costs 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 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 Transmission Business.

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
- (c) the basis and calculations underlying the increases in charges made by the licensee in the course of the Transmission Business.

3K.7 Where the Authority is satisfied that the licensee has recovered amounts in excess of the Allowed Security Costs, the Authority may issue directions requiring the licensee to take

such steps as may be specified to reimburse customers of the licensee for the excess amounts charged to them, and the licensee must comply with any directions so issued.

- 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 Anglo/Scottish boundaries)	10.533
Dumfries and Galloway (additional transmission capacity within licensee's Transmission System)	10.724

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.

(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 of this condition 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

[Chapter is not used for SPTL and SHE Transmission]

Chapter 5: Price Control Financial Instruments

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 of this condition) 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 of this condition, 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 of this condition, 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 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 of this condition is without prejudice to the licensee's right under paragraph 5A.13 of this condition 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 of this condition, 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 of this condition; and
 - (d) specifies a period of at least 28 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 of this condition 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 the 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) of this condition 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) of this condition, 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, 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 of this condition, 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 term MOD with respect to Relevant Year t for the purposes of Special Condition 3A;
 - (b) ensure that the electronic name of the file is "ET1 Price Control Financial Model" followed by the Relevant Year t-1 expressed in the format 20XX-XX;
 - (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.
- 5A.18 The first Relevant Year in which the Authority will publish a version of the ET1 Price Control Financial Model on its website for the purposes of paragraph 5A.17 of this condition will be Relevant Year 2013/14 and the last Relevant Year will be 2019/20.

Part D: Interpretation

- 5A.19 This condition should be read and construed in conjunction with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- 5A.20 For the purposes of this condition, 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.

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 of this condition, 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 term MOD for Relevant Year t, for the purposes of the formula that is specified in Special Condition 3A (Restriction of Transmission Network 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 value of the term MOD 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 term MOD_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);
 - (b) Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner);
 - (c) Special Condition 6D (Specified financial adjustments – Transmission Owner);
 - (d) Special Condition 6E (The Innovation Roll-out Mechanism);
 - (e) Special Condition 6F (Baseline generation connection outputs and generation connections volume driver);
 - (f) Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas); Special Condition 6H (Arrangements for the recovery of uncertain costs); and
 - (g) Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure).
- 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 value of the term MOD_t for the licensee, calculated as a result of Step 2 and shown as an output 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.
- 5B.9 Step 4: The Authority will give a direction to the licensee, in accordance with Part B of this condition, setting out the value for the term MOD_t which is to be used in the formula set out in Special Condition 3A for the purpose of ascertaining the value of the term BR_t .

Part B: Direction of the value of MOD_t

- 5B.10 Subject to paragraph 5B.2 of this condition, the value of the term MOD 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 of this condition, for any reason, the Authority does not direct a value for MOD_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 of this condition 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 a values for MOD_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 of this condition), the value of MOD_t will be held to be equal to a value 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 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 term MOD_t for the licensee that is shown as an output value.
- 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

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 of this condition 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.
- 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 adjustments for 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:

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;
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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 of this condition, 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 of this condition 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 of this condition, 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 $t-1$.
- 6A.16 Any direction issued under paragraph 6A.15 of this condition will include a statement of the component term values determined under Part B of this condition.
- 6A.17 Before issuing any directions under paragraph 6A.15 of this condition, 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 of this condition, and give reasons for its decisions in relation to them.
- 6A.20 If, subject to paragraph 6A.8 of this condition, 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, 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 The defined terms 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 it.

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 J12 (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.

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 of 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 CxIncTOt term in paragraph 1C(a) of the legacy TII condition; and
 - (b) the relevant TII Sharing Factors 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 for the purposes of setting the licensee's allowed revenue for that same TII Year n; and
 - (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:

- (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 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, 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

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) of this condition 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

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 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):

- (i) 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 of this condition 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 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 The defined terms 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	0.000	10.641	7.022	84.600
TII Actual Allowance	0.000	10.641	14.222	80.528

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	0.000	10.641	7.022	42.328
TII Allowance Adjustment	0.000	0.000	7.200	38.200

Table 3: TII Provisional Revenue Adjustment Term (see paragraph 6B.9)

£m (2009/10 prices)	TII Year 2012/13
TII Provisional Revenue Adjustment Term	0.805

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	7.200	38.200

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	50%

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.

Hunterston-Kintyre 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	0.296	0.197	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		Works at Hunterston – provide evidence to show: Consents process: Consent-related work is in progress.	Works at Hunterston – provide evidence to show: Electrical, Civil and cable route works: that the tendering process has completed and that contracts have been awarded.	

SPTL-NGET Interconnection

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Construction Works.

1. Capital expenditure allowances

project costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
Construction cost allowance	0.000	4.927	1.142	24.485

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 Construction Works		<p>Eccles enabling works – provide evidence to show that:</p> <p>Two new terminal towers have been installed between existing towers 192A and 193 to facilitate the diversion of the Stella West overhead line entry.</p>	<p>Series and shunt compensation works – provide evidence to show that:</p> <p>All consents granted for Gretna, Moffat, Strathaven, and Eccles;</p> <p>ITTs for all civil works, main substation plant and OHL deviations at</p>	<p>Series and shunt compensation works – provide evidence to show that:</p> <p>All detailed design works completed.</p> <p>ITT for series capacitor issued.</p>

			<p>Gretna, Moffat, Strathaven, and Eccles;</p> <p>Place contracts for all civil works, substation works and OHL deviations at Gretna, Moffat, Strathaven, and Eccles;</p> <p>Complete OHL deviations at Eccles.</p>	
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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)
Enabling works at Eccles	Two new terminal towers of L12 specification will have been installed between existing towers 192A and 193 at Eccles substation site to divert the Stella West (ZA route) overhead line entry. The existing tower ZA192 will have been removed from the site.		

Series and shunt compensation works	Not complete.	Not complete.	By August 2015: Reduce the impedance of the Strathaven-Harker 400kV OHL by approximately 35%; Reduce the impedance of the Eccles-Stella West 400kV OHL by approximately 35%.
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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	5.419	4.922	0.000
Construction cost allowance	0.000	0.000	0.000	2.600

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>HVDC link – provide evidence to show that:</p> <p>Network analysis studies and resulting decision on converter, cable route and landing points have been completed.</p> <p>Physical layout drawings and</p>	<p>HVDC link – provide evidence to show that:</p> <p>Pre-contract design is complete.</p> <p>Contracts are drawn up over the year with suppliers by 1 April 2012.</p> <p>Converter station land acquisition or</p>	

		<p>final decision of substation locations have been completed.</p> <p>Equipment standards and specifications for design choice have been completed.</p> <p>Sea-bed survey is complete.</p> <p>Consultations and environmental assessments are progressing in accordance with program.</p> <p>Optimised tender design for firm price has been completed.</p>	<p>options complete.</p> <p>Pre-application consultation and environmental assessment works complete.</p> <p>Planning application submission to appropriate bodies complete.</p>	
For Funded Construction Works				<p>Hunterston East 400kV substation – provide evidence to show that:</p> <p>Design Works Complete.</p> <p>GIS Switchgear Contract placed.</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)
Hunterston East 400kV substation		Not complete.	Commission Hunterston East 400kV substation, comprising eight bays of GIS, by 31 Dec 2015, in accordance with the delivery programme for the wider Western HVDC Link project.

East-West upgrade

For the purposes of Special Condition 6B, Project Details are specified below for this Scheduled Project in respect of:

- Funded Construction Works.

1. Capital expenditure allowances

project costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
Construction cost allowance	0.000	0.000	0.761	15.244

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 Construction Works			<p>East-West upgrade – provide evidence to show that:</p> <p>Consents granted for XH route OHL deviation;</p> <p>ITTs issued for all civil works, main substation plant, and OHL deviations at Smeaton, Currie, Kaimes;</p>	<p>East-West upgrade – provide evidence to show that:</p> <p>ITTs issued for all civil works, main substation plant, and OHL deviations at Smeaton, Currie, Kaimes;</p> <p>Contracts placed for all</p>

			<p>ITTs issued for 400kV cable and cable installation, and 400kV switchgear at Torness;</p> <p>ITTs issued for XH Route OHL deviation / reinsulation;</p> <p>Place contracts for all civil works, main substation plant, and relevant OHL deviations at Smeaton, Currie, Kaimes;</p> <p>Place contracts for 400kV cable and cable installation, and 400kV switchgear at Torness;</p> <p>Place contracts for XH Route OHL deviation / reinsulation.</p>	<p>civil works, main substation plant, and relevant OHL deviations at Smeaton, Currie, Kaimes.</p>
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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)
East-West upgrade	Not complete.	Not complete.	<p>By August 2015:</p> <p>Upgrade the Strathaven-Wishaw-Kaimes-Smeaton 275kV circuits to 400kV operation;</p> <p>Install a second cable per phase on the Torness-Eccles No.1 and No.2 400kV circuit.</p>

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 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 Totex expenditure; and
 - (b) the licensee's actual Totex expenditure.
- 6C.5 The 'appropriate share' referred to in paragraph 6C.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).
- 6C.6 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 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 Totex expenditure. PCFM Variable Values which relate to the licensee's allowed 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 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 of this condition, 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 of this condition 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 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.

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 paragraphs 5B.12 of Special Condition 5B and, in any case, before directing a value for MOD_t under that paragraph.

Part D: Interpretation

- 6C.18 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: TOTEX INCENTIVE STRENGTH AND TOTEX CAPITALISATION RATES

(see Part A of this condition)

Licensee	Totex Incentive Strength Rate	Totex Capitalisation Rate
SP Transmission Ltd	50%	90%

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: 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 revenue allowances (EDE values); and
 - (b) Pension Scheme Administration and Pension Protection Fund levy 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:
- (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 noproviously 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) tax liability revenue allowance adjustments in respect of tax trigger event (TTE values); and
 - (b) 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.
- 6D.13 Subject to paragraph 6D.16 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 percentage cost of corporate debt

- 6D.19 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed percentage cost of corporate debt (CDE values).
- 6D.20 Subject to paragraph 6D.21 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 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.22 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.
- 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 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 condition.

Part E: Interpretation

- 6D.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 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 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 subparagraph (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 the 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 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 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 above:

- (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 of this condition 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 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 revisions 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 IRM values 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 and 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 (%)
SP Transmission Ltd	50%

APPENDIX 2: Materiality threshold amount

Licensee	£m (2009/10 value)
SP Transmission Ltd	266.645

Special Condition 6F. Baseline Generation Connection Outputs and Generation Connections volume driver

Introduction

6F.1 The purpose of this condition is:

- (a) to specify the basis on which the licensee's levels of Allowed Expenditure for transmission infrastructure works associated with the connection of one ("Sole-use Generation Connections") or more than one ("Shared-use Generation Connections") new or additional generating stations to a part of the licensee's Transmission System (together 'Generation Connections') are to be determined; and
- (b) to determine any appropriate revisions to the PCFM Variable Values relating to the constituents of 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 transmission infrastructure works undertaken by the licensee to Deliver Generation Connections in Relevant Years in the Price Control Period and is determined by 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 Allowed Expenditure for those forecast baseline Generation Connections;
- (b) the determination in each Relevant Year t-1 of Allowed Expenditure amounts for transmission infrastructure works for Generation Connections the licensee Delivers in Relevant Years in the Price Control; and
- (c) 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 (whether upwards or downwards) 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 Allowed Expenditure for Generation Connections Capacity Thresholds

6F.5 Table 1 in this condition sets out the licensee's Allowed Expenditure (in 2009/10 prices) for transmission infrastructure works associated with Sole-use Generation Connections (BSUE) and Shared-use Generation Connections (BSHE) for each of the Relevant Years of the Price Control Period and the respective Threshold Capacity for each generation connection type.

Table 1: Baseline Allowed Expenditure for Generation Connections

Threshold Capacity		Relevant Year ending 31 March							
		2014	2015	2016	2017	2018	2019	2020	2021
2,503MW	BSUE (£m)	21.960	17.618	7.191	2.942	4.569	5.452	5.914	2.797
1,073MVA	BSHE (£m)	41.933	44.786	25.526	0.000	0.000	0.000	0.000	0.000

6F.6 The Allowed Expenditure amounts 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
- 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 that the licensee 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).

6F.8 If the licensee does not Deliver Sole-use Generation Connections and Shared-used Generation Connections up to respective Threshold Capacity specified in Table 1 by the end of the Price Control Period the Authority will adjust the amount of BSUE and BSHE such that the licensee's Allowed Expenditure in each Relevant Year of the Price Control Period reflects the amount of Generation Connections Delivered by the licensee, as calculated by the relevant provisions of this condition.

Part B: Allowed Expenditure for Generation Connections

6F.9 The value of $GCE_{t,k}$ in Relevant Year t is to be determined where information is available for Relevant Year k (where k=1 to N) in accordance with the following formula:

$$GCE_{t,k} = (BSUE_k + BSHE_k) \times RPE_k + VSHE_k + VSUE_k$$

where:

BSUE _k	is the baseline Allowed Expenditure in Relevant Year k for Sole-use Generation Connections as set out in Table 1 of this condition.
BSHE _k	is the baseline Allowed Expenditure in Relevant Year k for Shared-use Generation Connections as set out in Table 1 of this condition.
VSUE _k	is the variant Allowed Expenditure in Relevant Year k for Sole-use Generation Connections calculated in accordance with paragraph 6F.10 of this condition.
VSHE _k	is the variant Allowed Expenditure in Relevant Year k for Shared-use Generation Connections calculated in accordance with paragraph 6F.12 of this condition.
RPE _k	means the real price effects adjustment factor for Relevant Year k as set out in Table 2 of this condition.
k	indexes all Relevant Years in the Price Control Period up to and including t-2 for which data is available in Relevant Year t-1 (i.e. k takes values from 1 to N).

6F.10 For the purposes of the Principal Formula, the value of VSUE_k in Relevant Year t is to be calculated in Relevant Year t-1 for Relevant Year k from the following formulae as is applicable:

(a) if $RG_k \leq 2,503\text{MW}$ then:

$$VSUE_k = 0$$

(b) if $RG_k > 2,503\text{MW}$ then:

$$VSUE_k = (RG_k - \max(2,503, RG_{k-1})) \times \text{£}0.043\text{million} \times RPE_k + COM_k$$

where:

RG _k	means the Relevant Generation Capacity as at 31 March of Relevant Year k.
RPE _k	has the same meaning as set out in paragraph 6F.9 of this condition.
COM _k	means the cumulative operation and maintenance allowance for Generation Connections Delivered above the threshold and is calculated in accordance with paragraph 6F.11 of this condition.

Table 2: Real Price Effects adjustment factors

Relevant Year k							
2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1.046	1.061	1.077	1.093	1.110	1.126	1.143	1.161

6F.11 The following formula is to be used to derive the COM_k term:

$$COM_k = \sum_{k=1}^{to\ n} (RG_k - \max(RG_{k-1}, 2503)) \times \text{£}0.043\text{million} \times RPE_k) \times 0.01$$

6F.12 For the purposes of the Principal Formula, the value of $VSHE_k$ is to be derived in Relevant Year t for Relevant Year k in accordance with the following formula:

$$VSHE_k = \sum_c (SHRD_{c,k} \times DFlag_c) + SOM_k$$

where:

$SHRD_{c,k}$	means the Shared-use Composite Cost for project c in Relevant Year k and is calculated in accordance with paragraph 6F.13 of this condition.
$DFlag_c$	means the proportion of Shared-use Generation Connections in Relevant Year k that exceeds the Threshold Capacity set out in Table 1 and is derived in accordance with paragraph 6F.14 of this condition.
SOM_k	means the operation and maintenance allowance for total amount of Shared-use Generation Connections Delivered above the threshold in Relevant Year k and is calculated in accordance with paragraph 6F.15 of this condition.

6F.13 The following formula is to be used to derive the $SHRD_{c,k}$ term:

$$SHRD_{c,k} = [\sum_{n=1}^{to\ 5} (QSS_{c,k,n} \times USS_n) + \sum_{m=1}^{to\ 4} (QOL_{c,k,m} \times UOL_m) + \sum_{l=1}^{to\ 3} (QCW_{c,k,l} \times UCW_l)] \times RPE_k$$

where:

$QSS_{n,k}$	means the quantity of substation works commissioned in respect of type and capacity n as part of project c for Shared-use Generation Connections in Relevant Year k, where capacity and type are set out in Table 3 of this condition.
$USS_{n,k}$	means the specific matrix costs in respect of substation type and capacity n as set out in Table 3 of this condition.
$QOL_{m,k}$	means the quantity of overhead line Delivered by the licensee in respect of length and capacity m as part of project c for Shared-use Generation

Connections in Relevant Year k, where length and capacity are defined in Table 4 of this condition.

$UOL_{m,k}$	means the specific matrix costs in respect of overhead line length and capacity m for Shared-use Generation Connections as set out in Table 4 of this condition.
$QCW_{l,k}$	means the quantity of civil works in respect of type l as part of project c for Shared-use Generation Connections in Relevant Year k, where the type of works are set out in Table 5 of this condition.
$UCW_{l,k}$	means the specific matrix costs in respect of civil works type l as set out in Table 5 of this condition.
RPE_k	has the same meaning as in paragraph 6F.9 of this condition.

Table 3: Substation works and unit costs

Type and capacity n	Substation Works	Unit costs £000s (2009/10 prices)
1	400kV/132kV substation	23,412
2	275kV/33kV substation transformer feeder	8,005
3	275kV/33kV substation single switch	8,459
4	132kV/33kV substation transformer feeder	6,297
5	132kV/33kV substation single switch	6,541

Table 4: Overhead line capacities, adjustments and unit costs

Length and capacity m	Overhead line	Unit costs £000s (2009/10 prices)
1	275kV/400kV L8 construction – 20km	25,450
2	L8 adjustment per km (+/-) on 20km cost	1,022

Length and capacity m	Overhead line	Unit costs £000s (2009/10 prices)
3	132kV/33kV L7 construction – 20km	20,180
4	L7 adjustment per km (+/-) on 20km cost	761
5	Overhead line synergies adjustment	936

Note 1: Rows 2 and 4 in Table 4 represent the unit cost adjustment for variances in cable length (expressed in km) around the relevant 20km unit costs in rows 1 and 3.

For example, the cost for 17km of 275kV/400kV construction (in £000) would be $1*25450 + (17-20)*1022 = 22384$. Here QOL1 = 1 and QOL2 = -3.

Note 2: The adjustment for overhead line synergies are based on potential environmental and public consultation savings if two collector overhead lines are required in the same proximity.

Table 5: Civil works and unit costs

Type I	Civil works	Unit costs £000s (2009/10 prices)
1	Removal and processing/disposal of rock per m ³	0.119
2	Removal and off-site disposal of peat per m ³	0.055
3	Haulage road construction per km	119

6F.14 The value of $Dflag_c$ for all projects commissioned in year k is to be derived from such of the following formulas as is applicable:

- (a) If $NAR_k \leq 1,073MVA$ then $DFlag_c = 0$.
- (b) If $NAR_k > 1,073MVA$ then:

$$Dflag_c = \frac{NAR_k - \max(1073, NAR_{k-1})}{NAR_k - NAR_{k-1}}$$

where:

NAR_k means the Relevant Installed Asset Rating capacity in MVA Delivered by Shared-use Generation Connections as at 31 March of Relevant Year k.

6F.15 The following formula is to be used to derive the SOM_k term:

$$SOM_k = \sum_{c=1}^n \sum_c (SHRD_{c,k} \times DFlag_c) \times RPE_k \times 0.01$$

Part C: Determination of revisions to GCE values by the Authority

6F.16 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 Relevant Year k.

6F.17 The GCE values directed by the Authority will be set out in the format of Table 6 in this condition showing the total amounts of Allowed Expenditure for Generation Connections for Relevant Year k of the Price Control Period after any modifications calculated in accordance with the formulae set out in Part B of this condition.

Table 6: GCE values (£m, 2009/10 prices) after modifications in Part B

Relevant Year k	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.18 The Authority may also revise the GCE value for a Relevant Year or Years earlier than Relevant Year k (‘earlier Relevant Years’), notwithstanding that the GCE 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 terms GCE 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.19 A direction issued by the Authority under paragraph 6F.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 6F.16 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
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

6F.20 Where the Authority directs any revised GCE values for ‘earlier Relevant Years’ under paragraph 6F.16 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 as set out in Special Condition 5A, 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.21 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.

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 B 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 an 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.

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:

- (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.
- (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 in this condition.

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

6G.21 Subject to paragraph 6G.19 of this condition, the Authority may also 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 the EPIE values, adjust Allowed Expenditure in relation to the EPI Output to ensure efficiently incurred costs by the licensee are 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 E 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 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 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 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 the categories of costs set out in paragraph 6H.3 of this condition (each “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 categories specified in paragraph 6H.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.

6H.3 The uncertain cost categories referred to in paragraph 6H.1 of this condition are:

- (a) Enhanced Physical Site Security Costs; and
- (b) Work Force Renewal Costs.

6H.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

6H.5 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.6 Subject to paragraph 6H.9 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.7 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.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.

6H.8 A proposal made under paragraph 6H.6 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.9 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;
- (b) the second application window which opens on 1 May 2016 and closes on 31 May 2016; and
- (c) the third application window which opens on 1 May 2018 and closes on 31 May 2018.

6H.10 Relevant adjustments relating to Enhanced Physical Site Security Costs may only be proposed during the first and third application window. Relevant adjustments relating to Work Force Renewal Costs may only be proposed during the second application window. Each such relevant adjustment proposal must comply with the provisions of paragraphs 6H.6 to 6H.8 of this condition.

6H.11 Relevant adjustment proposals made outside the application windows set out in paragraph 6H.9 of this condition will not be determined by the Authority under the provisions of this condition.

Authority's power to determine relevant adjustments

6H.12 Where a proposal has been duly made under paragraph 6H.6 of this condition, the Authority may, within four months after the close of the relevant application window, 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.13 In determining any relevant adjustment under paragraph 6H.12 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.14 A determination under paragraph 6H.12 of this condition may confirm, reject, or vary the proposed relevant adjustment.
- 6H.15 Without limiting the general effect of paragraph 6H.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.
- 6H.16 The Authority will notify the licensee of any determination made under paragraph 6H.12 of this condition within 14 days of making the determination concerned.
- 6H.17 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 6H.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.

Part B: Determination of revisions to PCFM Variable Values

- 6H.18 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:
- (a) Enhanced Physical Site Security Costs (IAEEPS values); and
 - (b) Work Force Renewal Costs (IAEWR values).
- 6H.19 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.20 Determinations under paragraph 6H.19 of this condition are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.
- 6H.21 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.22 Subject to paragraph 6H.25 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 uncertain cost categories will be directed by the Authority by:

- (a) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window;
- (b) 30 November 2016 (or as soon as is reasonably practicable thereafter), following the second application window; and
- (c) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the third application window.

6H.23 Before issuing any directions under paragraph 6H.22 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

6H.24 The notice referred to in paragraph 6H.23 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.25 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 6H.24 of this condition, and give reasons for its decisions in relation to them.

6H.26 If, for any reason, the Authority does not make a direction required under paragraph 6H.22 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 paragraph 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.27 Expressions defined 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 set out in the relevant Regulatory Instructions and Guidance issued by the Authority under Standard Condition B15 (Regulatory Instructions and Guidance).

APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 6H.7 of this condition)

Licensee	Totex Incentive Strength Rate
SP Transmission Ltd	50%

APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 6H.7 of this condition)

Licensee	£m
SP Transmission Ltd	266.645

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
 - (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 Outputs 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; and
- (b) 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 (only 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 National Grid Transmission Ltd. Table 2 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 and scheduled Delivery date	Efficient costs £m (2009/10 prices)								
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for price control period
Series Compensation Boundary: B6 Starting transfer capacity: 3,300MW Additional transfer capacity: 1,050MW Delivered transfer capability: 4,350MW Delivery required 2015/16	17.166	46.679	20.359	0.000	0.000	0.000	0.000	0.000	84.204
East – West Upgrade Boundary: B6 Starting transfer capacity: 4,350MW Additional transfer capacity: 50MW Delivered transfer capability: 4,400MW Delivery: 2015/16	20.214	24.975	10.506	0.000	0.000	0.000	0.000	0.000	55.694

Output description and scheduled Delivery date	Efficient costs £m (2009/10 prices)								
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for price control period
Western HVDC link and onshore works 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) Delivery required 2016/17	85.574	122.426	111.134	12.453	0.000	0.000	0.000	0.000	331.587
Hunterston-Kintyre link Non-boundary output 240MVA of capacity at Hunterston substation Delivery required 2015/16	4.784	10.530	3.978	0.000	0.000	0.000	0.000	0.000	19.292
Kilmarnock South Voltage support to comply with Grid Code and NETS SQSS on possible closure of Hunterston Power station and transmission system reconfiguration in the west coast.	0.000	0.000	0.000	0.000	1.594	6.463	5.670	1.722	15.449

Table 2: Supplementary information in respect of the WHVDC Output

Allowed Expenditure for WHVDC Link £m (2009/10 prices)	Cost allocation ratio	Prior to Price Control Period		Price Control Period						Total
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2019/20	2020/21	
SPTL	31.5%	7.151	38.178	74.340	105.966	96.075	9.261	0.000	0.000	330.971
PROJECT TOTAL		22.7	121.2	236.0	336.4	305.0	29.4	0.000	0.000	1050.7

- 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

Description of output	Scheduled Delivery date	Allowed Expenditure £m (2009/10 prices)								
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Boundary (Sub-boundary): Transfer capability before output: XXXMW Output to be Delivered: XXXMW additional thermal/voltage/stability capability Transfer capability after output: XXXMW	QX 201X/1X									

Table 4: Supplementary information for Strategic Wider Works Outputs for which provisions on joint Delivery apply

Allowed Expenditure £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	
SPTL share											
TOTAL											

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 Regulatory Instructions and Guidance issued under Standard Condition B15 (Regulatory Instructions and Guidance).

Part B: Cost and Output Adjusting Events

6I.12 This part (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 Link	£1050.7	Joint –National Grid Electricity 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 must:

- (a) be a joint submission with the relevant TO(s) 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 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 baseline 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 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.

6I.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; and
- (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

6I.21 Where the Authority receives notice from the licensee under paragraph 6I.18 of this condition, it will determine in a manner so as to facilitate the timely Delivery of 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;
- (b) whether the output will remain economical and efficient as a consequence of the pre-defined exceptional event; and
- (c) subject to paragraph 6I.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 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:
 - (i) the capacity increase of the Baseline Wider Works Output or Strategic Wider Works Output in Tables 1 or 3 in Part A respectively;
 - (ii) 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 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 OA.

(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

6I.32 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6I.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

6I.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 and 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.

6I.34 A direction under paragraph 6I.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.

6I.35 A direction issued by the Authority under paragraph 6I.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 6I.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;

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

6I.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.

6I.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).

6I.38 A notice under paragraph 6I.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 satisfies the following materiality criteria;
 - (i) total Delivery costs will be greater than £100 million;
 - (ii) the output will deliver cross boundary (or sub boundary) capacity or wider system benefits; and
 - (iii) costs cannot be recovered under any other provision of this licence.
- (a) the reasons for the request, including the associated needs case and cost-benefit analysis for the Strategic Wider Works Output and Delivery timescales; and
- (b) 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.

6I.39 For the purposes of paragraph 6I.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

6I.40 Where the Authority receives notice from the licensee under paragraph 6I.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 the adjustment that is to be given effect through a modification under this Part F.

(iii) Revocation

6I.41 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6I.40 of this condition.

Part G: Determination of revisions to WWE values

6I.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.

6I.43 Table 6 below 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
Total								

6I.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.44 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.44 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;
- (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.

Chapter 7: Annual Iteration Process - Adjustments to the System Operator Revenue

[Chapter is not used for SPTL and SHE Transmission]

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 Special Conditions (in whole or in part) and for such provisions to be disapplied following such a request in the circumstances specified below.

Part A: Conditions are to continue subject to disapplication

8A.2 The Relevant 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 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 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 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 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

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 service on the Authority of the Disapplication Request.

Part D: Licensee's right to terminate under a Disapplication Request

- 8A.8 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 of this condition.

Part E: Termination without involvement of the Competition Commission

- 8A.9 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 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.10 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 A8.11(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 Allowed Transmission Owner 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) Charges arising from any activity carried out under the Network Innovation Competition which results in Returned Royalty Income

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. Outage Changes: The net costs reasonably incurred by the licensee as a result of any outage change as reimbursed by the System Operator. For the purpose of this condition an "outage change" is a change to the outage plan notified to the licensee by the System Operator on or after week 49, as updated from time to time in accordance with the procedures set out in the STC.

ES6. NIC payments made by the System Operator to the licensee in respect of NIC funding in accordance with Special Condition 3I (The Network Innovation Competition).

ES7. 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 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, 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 eCondition J408C. Basis of transmission owner charges

[No change other than to licence title. Text to remain unchanged to that in Special Condition J10 that is currently in force for SPTL and SHE Transmission]

Chapter 9: Schedules

Schedule A: ~~Not used~~ ~~Supplementary Provisions of the Charge~~ Restriction Conditions

Part A: Excluded services

1. ~~There may be treated as excluded services provided by the transmission business such services in respect of which charges are made:~~
 - ~~(a) which fall within paragraph 6; or~~
 - ~~(b) which:~~
 - ~~(i) do not fall within paragraph 2; and~~
 - ~~(ii) may be determined by the licensee as falling under one of the principles set out in paragraphs 3 to 5.~~
2. ~~No service provided as part of the transmission business shall be treated as an excluded service in so far as it relates to the provision of services remunerated under charges for transmission owner services in accordance with special condition J10 (Basis of transmission owner charges) including (without prejudice to the foregoing):~~
 - ~~(a) the making available of transmission owner services~~
 - ~~(b) the carrying out of works for the installation of electric lines or electrical plant for the purpose of maintaining or upgrading the licensee's transmission system (not otherwise payable in respect of connections to the licensees' transmission system);~~
 - ~~(c) the carrying out of works or the provision of maintenance or repair in relation to the licensee's transmission system for the purpose of enabling the licensee to comply with standard condition B12 (System Owner—Transmission Owner Code) and standard condition D3 (Transmission system security standard and quality of service), the Electricity Safety, Quality and Continuity Regulations 2002 or any regulations made under Section 29 of the~~

~~Act or any other enactment relating to safety or standards applicable in respect of the transmission business; and~~

~~(d) the provision, installation and maintenance of any meters, switchgear or other electrical plant ancillary to making available of transmission owner services.~~

~~3. The whole or an appropriate proportion (as the case may be) of the charges of the type described in special condition J10 (Basis of transmission owner charges) and borne by any person as connection charges in respect of connections made after the grant of this licence and not remunerated as part of the transmission owner services under Special condition J2 (Restriction of transmission charges: revenue from transmission owner services) may be treated as excluded services.~~

~~4. There may be treated as an excluded service charges for the relocation of electric lines or electrical plant and the carrying out of works associated therewith pursuant to a statutory obligation (other than under Section 9(2) of the Act) imposed on the licensee.~~

~~5. There may with the approval of the Authority be treated as an excluded service any service of a type not above referred to which:~~

~~(a) consists in the provision of services for the specific benefit of a third party requesting the same; and~~

~~(b) is not made available as a normal part of the transmission business remunerated under Special Condition J2 (Restriction of transmission charges: revenue from transmission owner services).~~

~~6. Services may be regarded as excluded services where the charges are:~~

~~(a) the rental for transmission business assets hosting fibre optic telecommunications systems and used by third parties; and~~

~~(b) the net costs reasonably incurred by the licensee as a result of any outage change.~~

~~7. Where the Authority is satisfied that, in light of the principles set out in paragraphs 3 to 6 inclusive, any service treated as being or not being an excluded service should not be so treated, the Authority shall issue directions to that effect, and such service shall cease to be treated as an excluded service with effect from~~

~~the date of issue of such directions or such earlier date as may be specified in the directions (being not earlier than the commencement of the relevant year to which the information relating to excluded services last furnished pursuant to the revenue reporting Regulatory Instructions and Guidance directed by the Authority pursuant to standard condition B16 (Price Control Revenue Reporting and Associated Information) related, unless such information, or any such information provided earlier, was incorrect or misleading in any material respect, as may be specified in the directions).~~

~~8. For the purpose of this Schedule an “outage change” is a change notified to the licensee by the system operator on or after week 49 to the outage plan, as updated from time to time in accordance with the STC, other than~~

~~(a) a change to the outage plan requested by the licensee (the “original change”);
and~~

~~(b) such changes notified to the licensee by the system operator which:~~

~~iii) the licensee and the system operator agree are necessary in order to give effect to the original change, or~~

~~iv) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change; and~~

~~(c) without prejudice to subparagraphs (a) and (b) above, 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 this licence condition (a “non-chargeable outage change”).~~

~~8A—Any revenues received by the licensee from the system operator in respect of a non-chargeable outage change shall not be regarded as excluded service revenues under this Schedule.~~

~~8B—For the purposes of paragraph 8, “outage plan” and “week 49” shall have the same meanings as defined or used in the STC.~~

~~9.—The charges referred to in paragraph 6(b) shall be those declared to the system operator by the licensee and which are agreed by the system operator, or where there is a failure to agree, as determined by the Authority following the provision by the licensee of such information as the Authority may reasonably request.~~

Schedule 1 - Specified Area

[No change to any of the text of Schedule 1 that is currently in force for SHE Transmission and SPTL]

Schedule 2: Revocation

[No change to any of the text of Schedule 2 that is currently in force for SHE transmission and SPTL]

CONDITIONS BEING REMOVED

~~Special Condition G: Requests for transit~~

~~Special Condition J5: Restriction of transmission charges: Total
incentive revenue adjustment~~

~~Special Condition J7: Capital Expenditure Incentive and Safety Net~~