

Annex 3 – Determination of the PPB Amount

1. Definitions

1.1 In this Annex:

“allowed change of law costs” means an amount determined as such by the Authority in accordance with paragraph 7.1;

“allowed change of law revenues” means an amount determined as such by the Authority in accordance with paragraph 7.1;

“average specified rate” means the arithmetic mean of the daily base rates of Northern Bank Limited (or such other bank as the Authority shall specify from time to time) current from time to time during the period in respect of which the calculation falls to be made;

“excluded power procurement costs” has the meaning ascribed to it in paragraph 5.1;

“fuel security period” means a Security Period as defined in paragraph 2 of Part 1 of the Northern Ireland Fuel Security Code as that period may be extended for the purposes of this Annex with the approval of the Authority;

“maximum regulated PPB PSO revenue” means the maximum allowed revenue calculated in accordance with the formula in paragraph 2;

“metered” means, in relation to any quantity sold, as measured by metering required pursuant to

and defined in the Grid Code or (where no such meter is installed) as otherwise reasonably calculated;

“non PSO revenue”

means the revenue (measured on an accruals basis) derived by the Power Procurement Business from payments to it under the Trading and Settlement Code, from the sale of system support services to the Transmission System Operator and from the settlement payments or receipts under any contracts for differences entered into by the Power Procurement Business, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived;

“power procurement manager”

means the Power Procurement Business;

“PPB Amount”

means the amount calculated in accordance with paragraph 2;

“PPB Amount restriction conditions”

means this Annex as from time to time modified or replaced in accordance therewith or pursuant to Article 14, 17, 17A or 18 of the Order, under the Energy Order under the SEM Order, or under the Directive Regulations;

“period of force majeure”

means a period during which any generator shall have been relieved from liability for breach of, or been entitled to suspend performance of its obligations under any power purchase agreement and in respect of which the Authority shall agree that the consequences thereof shall qualify for the

purposes of paragraph 2, as that period may be extended for the purposes of this Annex with the approval of the Authority;

“power procurement PSO revenue” means the revenue (measured on an accruals basis) derived by the Power Procurement Business under the agreement referred to in paragraph 1 of Condition 69 after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived;

“quantity sold” means the aggregate quantity of units sold in the relevant year t under the Single Electricity Market Trading and Settlement Code;

“relevant year” means a financial year commencing on or after 1 April 1992;

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

“RPI₂₀₀₆” means the value of RPI_t where the relevant year t is 2006 which has the value of 200.4;

“RPI₂₀₀₇” means the value of RPI_t where the relevant year t is 2007 which has the value of 208.9;

“RPI_t” means the Retail Price Index (1987=100) published or determined with respect to October in the relevant year t;

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| “sixteenth relevant year” | means the relevant year commencing 1 st April 2007; |
| “sold” | means sold or otherwise disposed of by the power procurement manager, and cognate expressions shall be construed accordingly; |
| “T&PES Licence” | NIE plc’s combined transmission and public electricity supply licence in effect as at 1 June 2007; |
| “uncollected PPB revenue” | means any amount owed to the Licensee in respect of power procurement PSO revenue or non PSO revenue, which amount remains unpaid six months after the date it first fell due for payment or which amount the Licensee deems (in accordance with the payment security policy) to be unrecoverable before the expiry of that six month period; plus the reasonable recovery costs incurred by the Licensee in respect of such amount and the reasonable interest attributable to such amount (calculated in accordance with the payment security policy); |
| “Varied Ballylumford Agreements” | means (i) the buy-out agreement, and (ii) the generating unit agreements for generation sets nos. 4 and 6 at Ballylumford power station, and the power station agreement, each as modified by the re-powering agreement; |

2. **Restriction of the PPB Amount: basic formula**

Other than in the sixteenth relevant year, the Licensee shall in setting the PPB Amount use its best endeavours to ensure that in any relevant year the power procurement PSO revenue shall not exceed the maximum regulated PPB PSO revenue calculated in accordance with the formula for M_{PPBt} below.

In the sixteenth relevant year the Licensee's allowable revenues shall be the sum of: (a) the amount calculated in accordance with the formula for M_{PPBt} below for the period from 1 November 2007 to 31 March 2008 inclusive; and (b) the allowed revenues of the Power Procurement Business from 1 April 2007 to 31 October 2007 inclusive as set out in the T&PES Licence. No cost incurred or revenue received by the Power Procurement Business shall be included in more than one of these categories.

$$M_{PPBt} = A_t + D_t + E_t - NPR_t + K_{Bt}$$

where:

M_{PPBt} means the maximum regulated PPB PSO revenue in relevant year t.

A_t means the actual power purchase costs incurred in the purchase of electricity in relevant year t derived by:

- (a) aggregating amounts payable by the power procurement manager to any person in relevant year t (measured on an accruals basis) for:
 - (i) the provision to the power procurement manager of the total available capacity of contracted generation sets and the purchase of electricity;
 - (ii) the use of any interconnector;
 - (iii) the early termination or amendment of any power purchase agreement;

- (iv) holding stocks of fuel or other materials for the purposes of generation of electricity; and
 - (v) the provision of any other services approved by the Authority for the purpose of this paragraph;
- (b) deducting the excluded power procurement costs (to the extent that those costs are included in sub-paragraph (a)) and the allowed change of law costs for relevant year t;
- (c) adding the net amount (whether a positive or a negative number) payable or receivable (as the case may be and measured on an accruals basis) by the power procurement manager in relevant year t in respect of electricity purchase or sale contracts and other contracts designed to enable the power procurement manager to hedge fuel price or exchange rate risks;

D_t means:

- (a) the allowed charge in relevant year t for excluded power procurement costs and changes of law calculated as the aggregate of the excluded power procurement costs plus the allowed change of law revenues, plus
- (b) any reasonable costs incurred by the Power Procurement Business in complying with the requirements imposed on the Licensee under legislation and other legal requirements through which Directive 2003/54/EC is implemented, whether before or after the coming into effect of this Annex, as reasonably determined by the Authority, to the extent not recovered under another part of this Licence or (except to the extent the Transmission Owner is recovering amounts in relation to payments due to the Licensee of the PPB Amount) under the Transmission Owner Licence, plus
- (c) any reasonable costs incurred by the Power Procurement Business in complying with the requirements imposed on the Licensee

under the arrangements for the Single Electricity Market (being the project described in the Memorandum of Understanding dated 23 August 2004 and made between the Authority and the Commission for Energy Regulation in Dublin), whether before or after the coming into effect of this Annex, as reasonably determined by the Authority, to the extent not recovered under another part of this Licence or (except to the extent the Transmission Owner is recovering amounts in relation to payments due to the Licensee of the PPB Amount) under the Transmission Owner Licence, plus

- (d) any other amounts, not included in the revenues under the Transmission Owner Licence or another Annex of this Licence, requested by the Licensee and approved by the Authority whether prior to or after the coming into effect of this Annex;

E_t means the allowed Power Procurement Business entitlement in relevant year t derived using the following formula:

$$E_t = DEP_t + RTN_t + IC_t + PD_t$$

where:

DEP_t means the depreciation amount allowed in respect of the PPB regulatory asset base for the relevant year t which is derived from the following formula:

$$DEP_t = PPB_DEP_t * RPI_t / RPI_{2007}$$

where:

PPB_DEP_t means the value of the allowed PPB depreciation amount for relevant year t (or in the case of the sixteenth relevant year, the part thereof) as shown in Part A of Schedule 3;

RTN_t means the allowed return on the PPB regulatory asset base for the relevant year t which is derived from the following formula:

$$RTN_t = PPB_RTN_t * RPI_t / RPI_{2007}$$

where:

PPB_RT_t means the value of the allowed PPB return on the PPB regulatory asset base for relevant year t (or in the case of the sixteenth relevant year, the part thereof) as shown in Part A of Schedule 3;

IC_t means the PPB incentivised fee for relevant year t which is dependent on the outturn performance in relevant year t against the targets specified in Part B of Schedule 3 and which is derived from the following formulae:

(a) where PIO_t is less than or equal to 90% :

$$IC_t = [£3.4m + (£0.6m * PIO_t / 90\%)] * RPI_t / RPI_{2006}; \text{ or}$$

(b) where PIO_t is greater than 90% :

$$IC_t = [£4.0m + (£0.2m * (PIO_t - 90\%) / 10\%)] * RPI_t / RPI_{2006};$$

where :

PIO_t means the aggregate performance incentive outcome in relevant year t, expressed as a percentage.

PD_t means the allowed PPB pension deficit cost of £0.365m per year, such figure to be revised in accordance with the results of each triennial actuarial valuation.

NPR_t means the non PSO revenue in relevant year t:

K_{Bt} means a correction factor (whether a positive or negative value) to be applied to the maximum regulated PPB PSO revenue in relevant year t derived using the following formula:

$$K_{Bt} = [M_{PPBt-1} - R_{PPBt-1}](1 + I_t/100)$$

(but in relation to the first relevant year, K_{Bt} shall be equal to zero);

where:

M_{PPBt-1} means the maximum regulated PPB PSO revenue in relevant year t-1;

R_{PPBt-1} means the power procurement PSO revenue in relevant year t-1;

I_t means the average specified rate,

3. **Restriction of the PPB Amount: adjustments**

3.1 If, in respect of any relevant year the power procurement PSO revenue exceeds the maximum regulated PPB PSO revenue by more than the permitted one-year percentage, the Licensee shall furnish an explanation to the Authority and in the next following relevant year the Licensee shall not effect any increase in the PPB Amount unless it has demonstrated to the reasonable satisfaction of the Authority that the power procurement PSO revenue would not be likely to exceed the maximum regulated PPB PSO revenue in that next following relevant year.

3.2 If, in respect of any 3 successive relevant years, the sum of the amounts by which the power procurement PSO revenue has exceeded the maximum regulated PPB PSO revenue is more than the permitted 3-year percentage, then in the next following relevant year the Licensee shall, if required by the Authority, adjust its PPB Amount such that the power procurement PSO revenue would not be likely, in the judgment of the Authority, to exceed the maximum regulated PPB PSO revenue in that next following relevant year.

3.3 In this paragraph:

“**permitted one-year percentage**” means 4 per cent of the maximum regulated PPB PSO revenue; and

“permitted 3-year percentage” means 5 per cent of the maximum regulated PPB PSO revenue in the second of the relevant years.

4. **Information to be provided to the Authority in connection with the PPB Amount restriction conditions**

4.1 Where any change is intended to be made in the PPB Amount regulated under paragraph 2, the Licensee shall not later than the time referred to in paragraph 4.2 provide the Authority with:

- (a) a written forecast of the maximum regulated PPB PSO revenue, together with its components, in respect of the relevant year t in which such change is to take effect and in respect of the next following relevant year $t + 1$;
- (b) a written estimate of the maximum regulated PPB PSO revenue, together with its components, in respect of the relevant year $t-1$ immediately preceding the relevant year in which the change is to take effect unless a statement complying with paragraph 4.6 in respect of relevant year $t-1$ has been furnished by the Licensee to the Authority before the time referred to in paragraph 4.2.

4.2 The relevant time referred to in paragraph 4.1 shall be 14 days prior to the date of publication of such charges.

4.3 If within 3 months of the commencement of any relevant year t the Licensee has not provided the aforementioned forecasts pursuant to paragraph 4.1 for the purpose of such changes in charges as are referred to in paragraph 4.1, the Licensee shall forthwith provide the Authority with a written forecast of the maximum regulated PPB PSO revenue (together with its components) in respect of relevant year t .

4.4 The Authority may issue directions providing that any forecast or estimate provided in accordance with paragraph 4.1 or 4.3 shall be accompanied by such information as regards the assumptions underlying the forecast or estimate as may be necessary to enable the Authority to be satisfied that the forecast or estimate has been

properly prepared on a consistent basis and the Licensee shall comply with any such directions.

4.5 Not later than 6 weeks after the commencement of each relevant year t , the Licensee shall send to the Authority a statement as to:

- (a) whether or not the provisions of paragraph 3 are likely to be applicable in consequence of the power procurement PPB PSO revenue in the preceding relevant year $t-1$ or the 3 preceding relevant years $t-1$, $t-2$ and $t-3$; and
- (b) its best estimate as to the relevant correction factor K_{Bt} calculated in accordance with the formula set out in paragraph 2 to be applied in calculating the maximum regulated PPB PSO revenue in respect of relevant year t .

4.6 Not later than 3 months after the end of each relevant year the Licensee shall send to the Authority a statement, in respect of that relevant year, showing the specified items referred to in paragraph 4.8.

4.7 The statement referred to in the preceding paragraph shall be:

- (a) accompanied by a report from the Auditors that in their opinion:
 - (i) such statement fairly presents each of the specified items referred to in paragraph 4.8 in accordance with the requirements of the PPB Amount restriction conditions; and
 - (ii) the amounts shown in respect of each of those specified items are in accordance with the Licensee's accounting records which have been maintained in respect of each of the relevant Separate Businesses in accordance with this Licence or (in relation to items relating to the period prior to SEM Go Live) the T&PES Licence; and
- (b) certified by a director of the Licensee on behalf of the Licensee that to the best of his knowledge, information and belief having made all reasonable enquiries:

- (i) there is no amount included in its calculations under paragraph 2 which represents other than
 - (aa) bona fide consideration for electricity sold; or
 - (bb) an amount permitted under the PPB Amount restriction conditions to be so included;
- (ii) there is no amount included in its calculations of excluded power procurement costs under paragraph 5 which represents other than an amount permitted under the PPB Amount restriction conditions to be so included; and
- (iii) all amounts which should properly be taken into account for the purposes of the PPB Amount restriction conditions have been taken into account.

4.8 The specified items to be contained in the statement referred to in paragraph 4.6 shall be the following:

- (a) the quantity sold;
- (b) the power procurement PSO revenue;
- (c) the Power Procurement Business's costs incurred in the purchase of electricity, calculated as provided under paragraph 2 (showing separately each component thereof);
- (d) the allowed Power Procurement Business entitlement, being E_t calculated as provided under paragraph 2, showing separately each component thereof;
- (e) the excluded power procurement costs referred to at paragraph 5 (showing separately each category of excluded cost);
- (f) NPR_t calculated as provided under paragraph 2, showing separately each component thereof;
- (g) such other items as shall be specified in directions issued by the Authority from time to time for the purposes of this Annex.

5. **Excluded power procurement costs**

5.1 Subject to paragraph 5.2, the following costs and revenues of the power procurement manager (whether a positive or negative amount) shall be treated as excluded power procurement costs in relevant year t (and, in the case of (xii) and (xiii) below, such costs shall be so treated for each year in which the buy-out agreement continues to be in force):

- (i) the cost incurred in the purchase of electricity during fuel security periods and periods of force majeure in relevant year t calculated in accordance with the definition of A_t and with a basis for attributing costs between different periods of the year approved by the Authority;
- (ii) the Licensee's allowed power procurement related security costs, being any cost incurred by the power procurement manager and approved by the Authority as being an allowed security cost in accordance with the Northern Ireland Fuel Security Code (as that term is therein defined), but excluding any cost which forms part of:
 - (a) the Transmission Owner's allowed related security costs; or
 - (b) any payment of the kind referred to in sub-paragraph (ii) above;
- (iii) payments made by the power procurement manager to generators in consideration of their compliance with any directions made to them in relation to stocks of fuel and other materials under Article 37 of the Order;
- (iv) amounts paid or payable to generators by way of compensation for any damage, costs, losses and expenses suffered or incurred by them as a result of complying or attempting to comply (in either case acting as reasonable and prudent operators) with any request or instruction from the transmission system operator pursuant to OC2.6.2(c)(ii), OC2.6.2(c)(iii), OC2.6.3(c)(ii), OC2.6.3(f)(ii), OC2.6.3(f)(iii), OC2.6.3(c)(iii), OC2.6.7.4, OC7.4.6.6 and SDC2.4.2.9 of the Grid Code (and the corresponding provisions of any replacement of the Grid Code), including:

- (a) physical damage to or operational deterioration of any generation set or other plant;
- (b) increased costs of operation or maintenance of the generation set or other plant;
- (c) costs and claims of contractors; and
- (d) loss or diminution of any payments to which the generators would have been entitled for the provision of available capacity (including reductions and/or increased rebates thereof) in relation to any such compliance at any time prior to 31 March 1997,

to the extent that the Authority is satisfied that:

- (aa) the compensation in question shall have had deducted from it any payment which the Licensee shall have received or have been entitled to receive from any generator whose act or omission was responsible for the request or instruction in question from the grid operator, in relation to such act or omission;
 - (bb) it was necessary for the transmission system operator to have made the request or instruction in question in order to protect or maintain the security and stability of the system; and
 - (cc) the Licensee, acting reasonably and prudently, could not have avoided the threat in question to the security and stability of the system;
- (v) an amount representing 10% (the PPB share) of the demonstrable financial benefits that PPB achieves under arrangements that qualify for this incentive as the Licensee shall agree from time to time with the Authority;
 - (vi) no longer used
 - (vii) amounts that become uncollected PPB revenue in relevant year t less any amount or part of an amount treated as uncollected PPB revenue in respect

of a preceding relevant year that has been paid to the Licensee in the relevant year t ;

- (viii) no longer used;
- (ix) the following amounts:
 - (a) any amount which shall be payable by the power procurement manager to any generator or relevant supplier in compensation for the costs of complying with a request made by the Authority under paragraph 10 of Condition 15 of any generation licence (as amended or supplemented and to the extent not recovered under paragraph 11 thereof) and paragraph 9 of Condition 5 of any supply licence other than the NIE Energy Supply licence (as amended or supplemented and to the extent not recovered under paragraph 10 thereof) (as the case may be);
 - (b) the reasonable direct costs of the Licensee in complying with a request made by the Authority under paragraph 10 of Condition 60, to the extent not recovered in accordance with paragraph 11 of Condition 60; and
 - (c) such amount as shall have been paid to the Authority in reimbursement of its costs and expenses incurred or to be incurred in developing the requisite arrangements provided for in Condition 60.
- (x) any other costs or revenues of the Power Procurement Business which:
 - (a) were not taken into account in setting E_t (as defined in paragraph 2);
 - (b) in the case of costs, those which cannot reasonably be controlled by the power procurement manager; and

- (c) the Authority shall determine, upon an application to it by the Licensee, shall be included for the purposes of this paragraph; and
 - (xi) no longer used;
 - (xii) an amount equal to the cost of servicing the buy-out agreement (being the contract entitled “Availability payment buy-out contract” dated 6 December 2000 between the Licensee and Premier Power Limited) in relevant year t;
 - (xiii) Without limitation to paragraph (xii), any additional costs which are incurred under the buy-out agreement by reason of any Increase in Tax (as such term is defined in the buy-out agreement);
 - (xiv) The applicable Breakage Charges and applicable reimbursable costs (as such items are defined in the re-powering agreement) incurred as a result of the re-powering agreement;
 - (xv) Charges in respect of generating units contracted to the power procurement manager for Transmission Use of System.
- 5.2 No cost incurred or revenues received by the power procurement manager shall be included in more than one of the categories in sub-paragraphs (i) to (xv) of paragraph 5.1.

6. **Duration of PPB Amount restriction conditions**

- 6.1 This Annex other than this paragraph 6 shall apply so long as this Licence continues in force but shall cease to have effect (in whole or in part, as the case may be) if the Licensee delivers to the Authority a disapplication request made in accordance with paragraph 6.2 and:
- (a) the Authority agrees in writing to the disapplication request; or
 - (b) the application (in whole or in part) of this Annex (other than this paragraph 6) is terminated by notice given by the Licensee in accordance with either paragraph 6.4 or paragraph 6.5.

- 6.2 A disapplication request pursuant to this paragraph 6 shall (a) be in writing addressed to the Authority, (b) specify this Annex (or any part or parts thereof) to which the request relates and (c) state the date from which the Licensee wishes the Authority to agree that the specified paragraphs of this Annex shall cease to have effect.
- 6.3 Save where the Authority agrees otherwise, no disapplication following delivery of a disapplication request pursuant to this paragraph 6 shall have effect earlier than the date (the “Disapplication Date”) which is the later of:
- (a) the date occurring 18 months after delivery of the disapplication request; and
 - (b) 31 March 2009.
- 6.4 If the Authority has not made a reference to the Competition Commission under Article 15 of the Order relating to the modification of the relevant paragraphs of this Annex before the beginning of 12 months which will end with the Disapplication Date, the Licensee may deliver written notice to the Authority terminating the application of this Annex (or any part or parts thereof other than this paragraph 6) as are specified in the disapplication request with effect from the Disapplication Date or a later date.
- 6.5 If the Competition Commission makes a report on a reference made by the Authority relating to the modification of this Annex (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that the cessation of this Annex, in whole or in part, operates or may be expected to operate against the public interest, the Licensee may within 30 days after the publication of the report by the Authority in accordance with Article 16 of the Order deliver to it written notice terminating the application of this Annex (or any part or parts thereof other than this paragraph 6) with effect from the Disapplication Date or a later date.
- 6.6 A disapplication request or notice served under this paragraph 6 may be served in respect of a specified geographic area.

7. **Change of Law**

7.1 Where it appears to the power procurement manager that there has been, or is likely to be, a relevant change of law which has had or is likely to have a material effect on the financial position and performance of the Power Procurement Business, the power procurement manager may require the Authority to determine whether the relevant change of law has had or is likely to have such an effect, and if so, what amounts, if any, should be treated as:

- (a) allowed change of law costs in calculating A_t for relevant year t and each succeeding relevant year in accordance with paragraph 2; and
- (b) allowed change of law revenues in calculating D_t for relevant year t and each succeeding relevant year in accordance with paragraph 2,

to ensure that the financial position and performance of the Licensee is likely, so far as reasonably practicable, to be the same as if the relevant change of law had not taken place. In determining the matters provided for in sub-paragraphs (a) and (b) above, the Authority shall have regard, where relevant, to:

- (a) its intentions in relation to the development and implementation of the requisite arrangements provided for in Condition 60;
- (b) the period over which the Licensee shall incur costs by reason of the relevant change of law;
- (c) the incremental costs (including financing costs) which the Licensee has been or will be required to incur as a consequence of the relevant change of law; and
- (d) the other circumstances of the case.

7.2 A notice given to the Authority by the power procurement manager pursuant to paragraph 7.1 shall contain or be accompanied by all relevant details of the relevant change of law and such other information as the Authority shall require and, unless the Authority shall otherwise consent, shall be given not later than the first day of

October immediately preceding the first of the relevant years in respect of which the power procurement manager wishes any change in such elements to take effect.

7.3 In this paragraph:

“environment” has the meaning ascribed to it in the Environmental Protection Act 1990;

“harm to the environment” means actual or potential adverse effects on the environment or living organisms (including man), and shall include changes in climatic conditions or other natural physical systems or functions in the world or any part thereof, and shall also include harm as that expression is defined in the Environmental Protection Act 1990;

“legal requirement” means, in relation to a relevant person, any of the following:

- (a) any enactment to the extent that it applies to the relevant person;
- (b) any regulation made by the Council or the Commission of the European Communities to the extent that it applies to the relevant person or a decision taken by the said Commission which is binding on the relevant person to the extent that it is so binding;
- (c) any interpretation of law, or finding, contained in any judgment given by a court or tribunal of competent jurisdiction in respect of which the period for making an appeal has expired which requires any legal requirement falling within (a) or (b) above to have effect

in a way that is different to that in which it previously had effect;

- (d) any direction of a competent authority other than, insofar as it applies to the Licensee, the Authority (except in the exercise of its powers under paragraph 4 of Condition 16 of the Transmission System Operator Licence or successor paragraph) or the Department;

“relevant change of law” means any of the following:

- (a) the application to the power procurement manager of any legal requirement which did not previously so apply or the change of any legal requirement relating to the Power Procurement Business (including any such legal requirement ceasing to apply, being withdrawn or not being renewed);
- (b) a change of the United Kingdom Plan, as it applies to Northern Ireland, for the reduction of emissions, made by the Secretary of State on 20 December 1990 pursuant to section 3(5) of the Environmental Protection Act 1990 (as it shall have been amended, supplemented or replaced from time to time); and
- (c) the application to any generator of any legal requirement which did not previously so apply or the change of any legal requirement relating to that generator (including any such legal requirement ceasing to apply, being withdrawn or not being renewed) which has the effect of increasing the cost of electricity

purchased by the power procurement manager,

other than in relation to:

- (i) corporation tax (or any other tax of a similar nature replacing corporation tax on profits or gains); or
- (ii) Value Added Tax (save to the extent that the generator is not entitled to credit for the same as input tax under section 14 of the Value Added Tax Act 1983);

save to the extent that the rate, incidence or basis of or other provisions applicable to such tax differ as between one case and another, by reason of considerations or matters relating to harm to the environment so as to result in the imposition of tax or costs at a greater level or higher amount, as between one case and another, than would otherwise be the case.

For the above purposes, a tax shall be treated as charged, levied, imposed or payable in relation to or because of considerations or matters relating to harm to the environment, or differences as between one case and another shall be treated as applying by reason of considerations or matters relating to harm to the environment, if in all the circumstances it may reasonably be considered that considerations or matters relating to harm to the environment were a material factor in relation to the charging, levying or imposition or making provision for payment of such tax or the making of provision for such difference;

“**relevant person**” means a generator or the Licensee; and

“**tax**” means any tax, duty, impost or levy of any nature whatsoever and wherever and whenever charged, levied or imposed.

8. **Modification of Generating Unit Agreements, Power Station Agreements and/or the Grid Code**

No longer used.

9. **Purpose of PPB Amount Restriction Condition**

It is acknowledged that the purpose of this Annex 3 is to ensure that, subject to the conditions contained in paragraphs 1 to 8, and having regard to other sources of revenue available to the Licensee (and the costs to be recovered therefrom), the Licensee is and shall at all times be able to recover, the aggregate payments made by the Licensee from time to time under the Varied Ballylumford Agreements in the manner described in a letter from the Authority to the predecessor company dated 27 July 2000.

Schedule 3 PPB Price Control Allowances and Incentive Targets and Weights**Schedule 3 - Part A: Price Control Allowances**

The following allowances are agreed for PPB and are expressed in 2007/08 (October 2007) prices.

| | Nov 2007 – March 2008 | 2008/09 |
|----------------------------|------------------------------|----------------|
| PPB_DEP_t | £0.099m | £0.237m |
| PPB_RTN_t | £0.069m | £0.159m |

Schedule 3 - Part B: IC_t Incentive Targets and Weights

The following represent the Incentive Targets and the Weights applying to each that is used in Annex 3 paragraph 2 to determine the value of IC_t for the relevant year.

| PPA Costs | | | |
|--------------------------------------|---|---|---------------|
| Description | Objective | Target / Reporting method | Weight |
| Availability Payments | Challenge and verify availability declarations and payments | Enforcement of the contract. Demonstrated via PPB's testing (via SONI). | 5% |
| Change in Law costs | Minimise costs passed through (FGD, SO ₃ , Ash disposal, etc.) | Costs minimised. Demonstrated via report to NIAUR. | 10% |
| Coal management | Ensure minimum contracted consumption is burnt | Minimum quantity consumed. Contractual compliance demonstrated ex-post. | 3% |
| Gas management | Ensure minimum contracted consumption is burnt | LTI3 minimum take consumed. Contractual compliance demonstrated ex-post. | 3% |
| Gas costs | Reduce gas costs | Average cost less than average LTI3 cost. Costs demonstrated ex-post. | 17% |
| Fuel costs during LTI3 interruptions | Reduce replacement fuel costs | Average cost does not exceed average spot price during interruptions. Costs demonstrated ex-post. | 7% |
| CO ₂ management | Meet surrender obligations | Ensure no penalties for non compliance. Demonstrated ex-post. | 5% |
| Fuel Stocking | Ensure adequate fuel supplies | Agree strategy with NIAUR/DETI and demonstrate compliance with the plan | 7% |

| Market Activity | | | |
|---------------------------|---|--|---------------|
| Description | Objective | Target / Reporting method | Weight |
| Nomination processes | Compliance with bidding principles | Market Monitor Challenges of PPB Bids should be no greater than overall market average. Demonstrated ex-post. | 5% |
| Market Revenue | Ensure revenue receipts are correct | Verify invoices and query all deviations. Demonstrated ex-post. | 5% |
| CfD cover position | Implement Risk Management in accordance with plans | Agree strategy/plan with NIAUR and demonstrate implementation within the agreed framework | 17% |
| Risk Management products | Increase product portfolio to align with Supplier / Customer needs | Demonstrate product portfolio development [and customer satisfaction] | 6% |
| Manage counter-party risk | Minimise risk of bad debt through rigorous implementation of the Payment Security Policy | Full compliance with the PSP. Demonstrate ex-post. | 5% |
| Manage interfaces | Ensure new interface arrangements operate effectively or are modified where deficiencies are identified | Effective operation of the interfaces with SONI and T&D. Agreed modifications and referrals to NIAUR for dispute resolution. | 5% |