

Text that we are adding is shown in underline and deletions in strikethrough.

Changes made since the Statutory Consultation are additionally highlighted

Changes made by other licence modifications¹ that are still in their 56 day standstill period before coming into effect are highlighted in cyan

Electricity transmission – NGESO

National Grid Electricity System Operator Limited

Special Condition 3.1 Transmission Network Revenue Restriction

Introduction

3.1.1 The purpose of this condition is as follows:

- (a) to establish the charging restrictions that determine the level of Maximum Revenue that may be recovered by the licensee through Transmission Network Charges; and
- (b) to set out the obligations on the licensee in respect of those restrictions.

Part A: Licensee’s obligation when setting Transmission Network Charges

3.1.2 The licensee must when setting Transmission Network Charges, use best endeavours to ensure that Transmission Network Revenue does not exceed Maximum Revenue.

Part B: Formula for calculating Maximum Revenue (TO_t)

3.1.3 The value of TO_t is derived in accordance with the following formula:

$$TO_t = PT_t + DIS_t + TS_t + NICF_t + \underline{SIFE}_t + LAR_t + ADJ_t + K_t$$

where:

PT_t is derived in accordance with Special Condition 3.2 (Pass-through items);

DIS_t means the amount derived as a result of:

- (a) the total amount charged to the licensee in Regulatory Year t by Scottish Hydro Electric Transmission Plc, SP Transmission Ltd and National Grid

¹ <https://www.ofgem.gov.uk/publications/decision-proposed-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions>

Electricity Transmission Plc in respect of Site-Specific Charges (as such charges are set out in schedule ten of the STC), minus

(b) the total income received by the licensee in respect of Site Specific Connection Charges calculated and applied in accordance with the Statement of the Connection Charging Methodology as set out in Section 14 of CUSC in Regulatory Year t from customers in the respective Transmission Areas of Scottish Hydro Electric Transmission Plc and SP Transmission Ltd and National Grid Electricity Transmission Plc;

TS_t means the amount (for the avoidance of doubt, including any amounts that are treated as capital contribution) derived as a result of:

(a) the total amount charged to the licensee in Regulatory Year t by Scottish Hydro Electric Transmission Plc, SP Transmission Ltd, National Grid Electricity Transmission Plc and any Offshore Transmission Owner in respect of Transmission Owner Final Sums (as such charges are defined in schedule nine of the STC), minus

(b) an amount equal to the income received by the licensee in Regulatory Year t in respect of users who reduce Transmission Entry Capacity or Developer Capacity or who terminate relevant bilateral agreements for connection access rights to the National Electricity Transmission System in the respective Transmission Areas of each of Scottish Hydro Electric Transmission Plc, SP Transmission Ltd, National Grid Electricity Transmission Plc and any Offshore Transmission Owner;

$NICF_t$ is derived in accordance with Special Condition 3.3 (RIIO-1 Network Innovation Competition);

$SIFF_t$ is derived in accordance with Special Condition 3.4 (Strategic Innovation Fund);

LAR_t is derived in accordance with Special Condition 3.5 (Legacy adjustments to revenue); and

ADJ_t is derived in accordance with Special Condition 3.6 (Adjustment term);

K_t is derived in accordance with Special Condition 3.7 (Correction Term); and

t means Regulatory Year t .

Special Condition 3.4. **The strategic innovation fund ($SIFF_t$)**

Introduction

3.4.1 The purpose of this condition is to establish arrangements for the SIF and to provide for the calculation of the term $SIFF_t$. This contributes to the calculation of Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

- 3.4.2 The effect of this condition is to provide funding for Eligible SIF Projects and the administration of the SIF by means of revenues collected by the licensee through its Transmission Network Charges (as adjusted, where appropriate, by the SIF Funding Return Mechanism) in accordance with the determination process in Part A.
- 3.4.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the SIF.

Part A: Determination of the value of the SIFF_t term

- 3.4.4 The SIFF_t term is the amount to be recovered by the licensee on behalf of Transmission Licensees and any body administering the SIF as determined by the Authority under paragraph 3.4.5 in relation to:
- (a) the SIF Funding specified for that Regulatory Year; and
 - (b) any SIF Funding Return specified for that Regulatory Year.
- 3.4.5 In each Regulatory Year, the Authority will calculate, in accordance with the SIF Governance Document, and then by direction given to the licensee, specify:
- (a) the value of the SIFF_t term for the licensee, being the amount (if any) to be recovered by the licensee in order to contribute to its own, and other Transmission Licensees' and any body administering the SIF's SIF Funding for that Regulatory Year;
 - (b) the net amounts that are to be transferred between the licensee, and other Transmission Licensees and any body administering the SIF in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the SIF Funding for that Regulatory Year that is attributable to its Eligible SIF Projects or costs of administering the SIF (adjusted to take into account the amount of any SIF Funding Return); and
 - (c) the manner in which and the timescale over which the net amounts referred to in sub-paragraph (b) are to be transferred.
- 3.4.6 The licensee must comply with any direction issued by the Authority under paragraph 3.4.5.

Part B: The SIF Funding Return Mechanism

- 3.4.7 The Authority may direct how SIF Returned Project Revenues should be paid to customers through the SIF Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee.

Part C: The SIF Governance Document

- 3.4.8 The licensee must comply with the SIF Governance Document.
- 3.4.9 The Authority will issue and amend the SIF Governance Document by direction.
- 3.4.10 The Authority will publish the SIF Governance Document on the Authority's Website.

3.4.11 The SIF Governance Document will make provision about the regulation, governance and administration of the SIF, including:

- (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 SIF Projects;
- (b) the evaluation criteria against which the funding of Proposed SIF Projects will be assessed and approved;
- (c) the process and procedures that will be in place for the assessment, approval, and financing of Proposed Eligible SIF Projects, including the SIF Funding Mechanism and SIF Funding Return Mechanism;
- (d) arrangements to ensure that relevant matters the licensee has learned from the implementation of Eligible SIF Projects can be captured and disseminated by the licensee to other Transmission Licensees;
- (e) the nature of the reporting obligations in respect of Eligible SIF 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 SIF Governance Document; and
- (f) arrangements relating to the treatment of intellectual property rights including SIF Returned Royalty Income in respect of Eligible SIF Projects.

Part D: Procedure for issuing and revising the SIF Governance Document

3.4.12 Before directing that the SIF Governance Document comes into effect the Authority will publish on the Authority's Website:

- (a) the text of the proposed SIF Governance Document;
- (b) the date that the Authority intends the SIF Governance Document to come into effect; and
- (c) the time within which representations may be made on the content of the SIF Governance Document, which will not be less than 28 days.

3.4.13 Before directing an amendment to the SIF Governance Document, the Authority will publish on the Authority's Website:

- (d) the text of the amended SIF Governance Document;
- (e) the date on which the Authority intends the amended SIF Governance Document to come into effect;
- (f) the reasons for the amendment to the SIF Governance Document; and
- (g) a period during which representations may be made on the amendment to the SIF Governance Document, which will not be less than 28 days.

3.4.14 Where this special condition provides for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before or after this licence condition document comes into effect.

