

DIRECTION ISSUED PURSUANT TO PARAGRAPH 4L.7 OF SPECIAL CONDITION 4L (FINANCIAL INCENTIVES ON EMR) OF THE ELECTRICITY TRANSMISSION LICENCE HELD BY NATIONAL GRID ELECTRICITY SYSTEM OPERATOR LIMITED IN EFFECT FOR THE 2020/21 REGULATORY YEAR.

Whereas:

1. National Grid Electricity System Operator Limited ("NGESO") is the holder of an electricity transmission licence (the "Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the "Act").
2. Special Condition 4L ("SpC 4L") of the Licence in effect for the 2020/21 regulatory year establishes arrangements to determine an adjustment to NGESO's Maximum SO Internal Revenue based on the financial incentives placed upon the licensee as follows:

$$\text{SOEMRINC}_t = \text{DRI}_t + \text{DFA}_t + \text{DSR}_t + \text{CSSS}_t$$

- a. SOEMRINC_t means the adjustment to the licensee's Maximum SO Internal Revenue (either positive or negative) in Relevant Year t as a result of the financial incentives placed upon the licensee in relation to the Electricity Market Reform ("EMR") Functions, collectively known as the System Operator Electricity Market Reform Incentives;
 - b. DRI_t means the dispute resolution incentive which adjusts the licensee's revenue depending on how many of the Reviewable Decisions made by the licensee are overturned by the Authority (the "Dispute Resolution Incentive");
 - c. DFA_t means the demand forecasting accuracy incentive which adjusts the licensee's revenue as a result of the accuracy with which the licensee forecasts Peak National Demand (the "Peak National Demand Forecasting Accuracy Incentive");
 - d. DSR_t means the demand side response incentive which adjusts the licensee's revenue as a result of the licensee encouraging and facilitating participation of Demand Side Response providers in the Year Ahead Capacity Auction (the "Demand Side Response Incentive"); and
 - e. CSSS_t means the customer and stakeholder satisfaction survey incentive which adjusts the licensee's revenue depending on the licensee's performance as measured by the customer and stakeholder satisfaction survey (the "Customer and Stakeholder Satisfaction Survey Incentive").
3. The "Regulations" for the purposes of this condition are:
 - a. The Contracts for Difference (Allocation) Regulations 2014, as amended from time to time (the "CfD Regulations"); and
 - b. The Electricity Capacity Regulations 2014, as amended from time to time (the "CM Regulations").

4. The arrangements in SpC 4L applicable to disputes arise from the following decisions made by NGESO, in its role as the EMR Delivery Body ("EMR DB")¹ (together, the "Decisions"):
 - a. decisions made under Regulation 20(4) of the CfD Regulations to uphold Non-qualification Determinations²;
 - b. decisions made under Regulation 69(3) of the CM Regulations to uphold Prequalification Decisions; and
 - c. decisions made under Regulation 69(3) of the CM Regulations to uphold decisions not to amend the Capacity Agreement Notice and decisions not to rectify the Capacity Market Register.
5. In 2020/21, we overturned sixteen of the EMR DB's reconsidered decisions relating to Capacity Market Prequalification. These reconsidered decisions were referred to us for a determination under Regulation 70 of the CM Regulations.
6. For the purposes of the Authority's decisions and the Dispute Resolution Incentive, the sixteen individual cases were grouped into three overturned themes where the EMR DB had made the same error. The sixteen overturned disputes can be grouped into three determination themes as follows:
 - a. Thirteen Capacity Market Units ("CMUs"), where we saw fit to overturn the reconsidered decisions on the basis of the EMR DB's failure to provide full reasoning for rejection of Prequalification application, and issues of procedural fairness;
 - b. Two CMUs, where we saw fit to overturn the reconsidered decisions on the basis of the EMR DB's misapplication of the Capacity Market Rules 2014 (as amended). The EMR DB failed to apply sufficient due diligence in these cases; and
 - c. One CMU, where we saw fit to overturn the reconsidered decision on the basis of deficiencies in the Capacity Market Rules 2014 (as amended).
7. We overturned three determination themes in relation to Capacity Market Prequalification decisions. Therefore the value of $CMQD_t$ equals -£65,000 for 2020/21.
8. There were no Contracts for Difference qualification decisions in 2020/21, as a result of there being no Allocation Round in this period. Therefore the value of $CfDQD_t$ equals 0 for 2020/21.
9. On the basis of this, the Authority has determined that the term DRI_t for performance in 2019/20 should take the value of -£65,000.

Therefore:

¹ On 1st April 2019, National Grid Electricity Transmission's electricity system operator business was transferred to a separate legal entity, NGESO, which took the role of EMR DB.

² Defined terms that are not defined in this Direction and defined in the Licence and the Regulations.

In accordance with SpC 4L, and following consultation with the licensee, the Authority hereby directs that the value of the term for Dispute Resolution Incentive for the licensee for performance in 2020/21 will be -£65,000 (2009/10 prices)³.

This document constitutes notice of the reasons for the decision to issue the direction pursuant to SpC 4L.7, as required by section 49A(2) of the Act.

Heather Stewart, Head of GB Wholesale Markets (Acting)

For and on behalf of the Gas and Electricity Markets Authority

Date: 30 November 2021