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Dear Andrew,

### **Decision on the value of the EMR Dispute Resolution Incentive for 2020/21**

This letter sets out our decision, following consultation with the licensee, on the value of the 2020/21 Electricity Market Reform (EMR) Dispute Resolution Incentive (DRI) pursuant to Special Condition 4L.7 of National Grid Electricity System Operator's (NGESO)<sup>1</sup> Electricity Transmission Licence in effect for the 2020/21 regulatory year(Licence)<sup>2</sup>.

### **2020/21 Dispute Resolution Incentive pursuant to Special Condition 4L.7**

The Dispute Resolution Incentive adjusts NGESO's revenue, in its role as the EMR Delivery Body (EMR DB), depending on the number of NGESO's reviewable decisions that are overturned following an appeal to the Authority. The reviewable decisions are referred to Ofgem under Regulation 70 of the Electricity Capacity Regulations 2014<sup>3</sup> (as amended), and under Part 7 of the Contracts for Difference (Allocation) Regulations 2014<sup>4</sup> (as amended).

The incentive has a value of  $\pm£100,000$  for the Capacity Market (CM) scheme, and  $\pm£100,000$  for the Contracts for Difference (CfD) scheme dependent on the number of overturned determinations by the Authority as calculated using the formula set out in

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<sup>1</sup> On 1<sup>st</sup> April 2019, NGESO was legally separated from NGET (National Grid Electricity Transmission), and therefore took the role of EMR DB. The term NGESO will be used throughout this report.

<sup>2</sup> Special condition 4L.7: The Authority shall, after consultation with the licensee, and having regard to the rest of Part B of this condition, direct the value of DRI for Relevant Year t

<sup>3</sup> See: [Electricity Capacity Regulations 2014](#)

<sup>4</sup> See: [Contracts for Difference \(Allocation\) Regulations 2014](#)

Special Condition 4L.5. Therefore, the total incentive value is  $\pm£200,000$ . For both CM and CfD individually, NGESO are eligible for the maximum value of £100,000 if no appeals to the Authority against reconsidered decisions made by the EMR DB are overturned. Conversely, NGESO are penalised the maximum value of -£100,000 if four or more decisions made by the EMR DB are overturned.

In total, we received 44 appeals against the reconsidered decisions made by the EMR DB for the 2020/21 T-1 and T-4 Capacity Market Auctions (Auctions). In 2020/21, we overturned sixteen of the EMR DB's reconsidered decisions. These sixteen decisions were grouped into three determination themes, by virtue of identifying commonalities across the reconsidered decisions made by the EMR DB in relation to these cases. These determination themes can be summarised as follows:

1. Failure to provide full reasoning for rejection of Prequalification application, and issues of procedural fairness;
2. Misapplication of the Capacity Market Rules 2014 (as amended), and insufficient due diligence; and
3. Deficiencies in the Capacity Market Rules 2014 (as amended)

Under the incentive, for both CM and CfD, the overturned decisions result in a penalty of £65,000. Therefore, as a result of the Authority overturning sixteen of the EMR DB's reconsidered decisions, which have been grouped into three determination themes, NGESO's CM Dispute Resolution Incentive value is -£65,000 for the year 2020/21.

In 2020/21, there was no CfD Allocation Round. As a result of this, the CfD Dispute Resolution Incentive value is null for the year 2020/21.

Therefore, NGESO's total Dispute Resolution Incentive value (DRI) for the year 2020/21 is -£65,000.

### **Decision on the EMR DRI value for 2020/21.**

Pursuant to Special Condition 4L.7, we direct the value for the Disputes Resolution Incentive<sup>5</sup> (DRI) for performance in 2020/21 to equal -£65,000. The direction is published on our website alongside this letter.

Yours faithfully,

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A handwritten signature in black ink, appearing to read 'H Stewart', is positioned at the top left of the page.

**Heather Stewart, Head of GB Wholesale Markets (Acting)**  
**For and on behalf of the Gas and Electricity Markets Authority**