

# **National Grid Electricity System Operator Limited**

## **Electricity transmission licence**

### **Special Conditions**

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# Chapter 1: Interpretation and definitions

## Special Condition 1.1 Interpretation and definitions

### Introduction

1.1.1 The purpose of this condition is to provide for the special conditions of this licence:

- (a) some provisions of general interpretation; and
- (b) the meaning of the defined terms, which are capitalised throughout the special conditions.

### Part A: Interpretation

1.1.2 Wherever the subscript 't' is used, without further numerical notation, the value to be used is the one for the Regulatory Year in question.

1.1.3 A positive or negative numerical notation indicates that the value to be used is for a year after or before the Regulatory Year in question and the number indicates how many years after or before.

1.1.4 In some cases, other subscripts may also be used to denote the value for a specific Regulatory Year and are noted in those Conditions.

1.1.5 Any values derived by reference to the value of revenues accrued, received or paid by or to the licensee shall be the actual sum accrued, received or paid by or to the licensee on the date of such accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes charged directly by reference to the amounts so accrued, received or paid.

1.1.6 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; or
  - (f) a provision of the standard conditions of electricity interconnector licences
- must, 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.

1.1.7 Any reference in these special conditions to a numbered appendix is, unless otherwise stated, to the relevant numbered appendix to that special condition.

- 1.1.8 Unless otherwise stated, any reference in these special conditions to the Authority giving a direction, consent, derogation, approval or designation includes:
- (a) giving it to such extent, for such period of time, and subject to such conditions as the Authority thinks reasonable in all the circumstances of the case; and
  - (b) revoking or amending it after consulting the licensee.
- 1.1.9 Unless otherwise stated, any reference in these special conditions to the Authority making a determination includes making it subject to such conditions as the Authority thinks reasonable in all the circumstances of the case.
- 1.1.10 Any direction, consent, derogation, approval, designation or determination by the Authority will be given or made in writing.
- 1.1.11 Where these special conditions provide for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before, on or after 1 April 2021.
- 1.1.12 Any monetary values in these special conditions are in sterling in a 2018/19 price base unless otherwise indicated.
- 1.1.13 The price base for each PCFM Variable Value is denoted in the ESO Price Control Financial Model 'Input' sheet. Where a PCFM Variable Value is listed as a "£m nominal" value, the ESO Price Control Financial Model will convert these values in accordance with Part E of Special Condition 4.1 (System Operator Internal Revenue Restriction), so that the component terms of Calculated Revenue are in a 2018/19 price base.

## **Part B: Definitions**

- 1.1.14 In these special conditions the following defined terms have the meanings given in the table below.
- 1.1.15 Where these special conditions state that the outputs, delivery dates and allowances are located in another document, the following defined terms also have the meanings given in the table below in that document.
- 1.1.16 Where the table below states that a defined term has the meaning given to it by:
- (a) another condition of this licence;
  - (b) the ESO Price Control Financial Instruments;
  - (c) the RIGs;
  - (d) the STC;
  - (e) the System Operator - Transmission Owner Code;
  - (f) the Grid Code;

- (g) the CUSC;
- (h) the Fuel Security Code or
- (i) an Associated Document

the defined term is to have the meaning given in that provision or document as amended from time to time.

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the Act	means the Electricity Act 1989.
Actual Corporation Tax Liability	means the value as shown in the licensee's company tax return (CT600) as submitted to Her Majesty's Revenue and Customs, relating to the licensee.
Affiliate	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Allowed Security Costs	has the meaning given to the term in the Fuel Security Code.
Annual Average Cold Spell Conditions	has the meaning given to the term in the Grid Code.
Annual Iteration Process	means in relation to the ESO Price Control Financial Model, the process set out in Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ESO Price Control Financial Handbook that may be applicable to it.
Appropriate Auditor	means: (a) in the case of a licensee which is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act; (b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed; and (c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006.
Appropriately Qualified Independent Examiner	means a qualified tax accountant from a firm regulated by a relevant professional body, who may be an employee of the licensee's Appropriate Auditors.

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Associate	means: (a) an Affiliate or Related Undertaking of the licensee; (b) an Ultimate Controller (as defined in standard condition A1 (Definitions and interpretation)) of the licensee; (c) a Participating Owner of the licensee; or (d) a Common Control Company.
Associated Document	means a document issued and amended by the Authority by direction in accordance with the special conditions of this licence and any reference to an Associated Document is to that document as amended from time to time unless otherwise specified.
the Authority	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Authority's Website	means <a href="http://www.ofgem.gov.uk">www.ofgem.gov.uk</a> .
Bad Debt	means the expense incurred by the licensee when Transmission Network Charges related charges owed to the licensee are not considered recoverable and which crystallises when normal payment terms have been exceeded and the licensee has made all reasonable efforts to collect the debt but is unable to recover the amounts owed.
Balancing Mechanism	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Balancing Services	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Balancing Services Activity	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Between	in the context of something being done, or occurring, between two dates, means on or after the first date and on or before the second date.
Board	means the licensee's board of directors.
BSC	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).

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Business Plan	means the plan established and published under Part B of Special Condition 4.3 (Electricity System Operator Reporting and Incentive Arrangements).
Business Plan Cycle	means the period for which the Business Plan is applicable with the first period commencing on 1 April 2021 and ending on 31 March 2023.
Business Plan Guidance Document	means a document developed and published by the Authority in accordance with Part B of Special Condition 4.3 (Electricity System Operator Reporting and Incentive Arrangements).
Calculated Revenue	has the value given to it in paragraph 4.1.5 of Special Condition 4.1 (System Operator Internal Revenue Restriction).
Calculated Tax Allowance	means the value of the $TAX_t$ term as set out in sheet <i>SystemOperator</i> of the ESO Price Control Financial Model.
Capacity Market ("CM")	means the scheme established by the Electricity Capacity Regulations 2014 (as amended) and the Capacity Market Rules (as amended) to which the licensee is the nominated delivery body.
Carry-over Network Innovation Allowance	means the allowance provided by Special Condition 4.7 (Carry-over Network Innovation Allowance) to extend the RII0-1 Network Innovation Allowance for an additional Regulatory Year.
Commercial Operational Services	means a service provided to the licensee by Transmission Owners or any successor company to each with the purpose of lowering the overall costs associated with the procurement and use of balancing services by the licensee above these parties obligations under the licence or the STC.
Compliance Certificate	means a certificate certifying that, to the best knowledge, information and belief of the sufficiently independent director chair of the Compliance Committee, having made due and careful enquiry, the report of the Compliance Officer fairly represents the licensee's compliance with the specified business separation duties.
Compliance Committee	means a sub-committee of the board of the licensee, for the purpose of overseeing and ensuring the performance of the duties and tasks of the Compliance Officer set out in paragraph 2.3.27 and the compliance



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	of the licensee with its specified business separation duties.
Compliance Officer	means a competent person appointed for the purpose of facilitating compliance by the licensee with the obligations pursuant to Special Condition 2.3 (Business Separation requirements and compliance obligations), Standard Condition B5 (Prohibition of Cross-subsidies), Standard Condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2.6 (Prohibited Activities and Conduct of the Transmission Business).
Compliance Report	means a report produced in accordance with paragraphs 2.3.28 and 2.3.29 of Special Condition 2.3 (Business Separation requirements and compliance obligations).
Compliance Statement	means a statement describing the practices, procedures and systems by which the licensee will secure compliance with the specified business separation duties, as defined in paragraph 2.3.20 of Special Condition 2.3 (Business Separation requirements and compliance obligations).
Confidential EMR Administrative Information	means Confidential EMR Information disclosed to or acquired by the licensee by virtue of its role in performing EMR Administrative Functions.
Confidential EMR Delivery Plan Information	means Confidential EMR Information which comprises either: (a) information on the costs of low carbon electricity generation technologies; or (b) information, the unauthorised disclosure of which would be adverse to the commercial interests of the Information provider, in each case, where such information is: (i) disclosed to or acquired by the licensee by virtue of its role in performing EMR Data Handling Functions; and (ii) specific to an individual energy industry participant, plant, facility, generating station or generation set, or the owner or operator thereof.

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Confidential EMR Information	means all information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee or any of its agents or representatives by virtue of the performance of EMR Functions by the licensee, but excluding: (a) all information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence; (b) all information which the licensee can demonstrate was lawfully in its written records prior to the date of disclosure of the same by the owner of the Confidential EMR Information or which it received from a third party independently entitled to disclose it; and (c) all information properly received in the usual course of the licensee's activities pursuant to paragraphs (a) to (c) of the definition of Permitted Purpose in Standard Condition A1 (Definitions and interpretation).
Consumer Prices Index Including Owner Occupiers' Housing Costs	means the monthly values of the "CPIH All Items", series ID "L522", published by the Office for National Statistics (or any other public body acquiring its functions).
Contracts for Difference	means a contract for difference under Chapter 2 of Part 2 of the Energy Act to which the licensee is the nominated delivery body.
COVID-19 Bad Debt	means Bad Debt owed to the licensee by one or more COVID-19 Defaulting Electricity Supplier.
COVID-19 Defaulting Electricity Supplier	means an Electricity Supplier who participated in the COVID-19 Scheme and whose insolvency has resulted in the licensee incurring Bad Debt. The timing and meaning of insolvency is as per the Insolvency Act 1986.
COVID-19 Scheme	means the scheme set out in the document with the title "Transmission Operators' ("TOs") Covid-19 Optional Transmission Network Use of System Charges Extended Payment Terms Scheme (the "Scheme")", published on the Electricity Network Association's website.
Covid Support Scheme	has the meaning given to that term in accordance with section 14 of the CUSC.
CUSC	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).

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Customer	for the purposes of Special Condition 2.1 (EMR Arrangements) means any Stakeholder who pays the licensee through network charges or fees.
Customer and Stakeholder Satisfaction Survey	means an annual survey of Customers and Stakeholders conducted under Special Condition 2.1 (EMR Arrangements) to assess Customer and Stakeholder satisfaction with its Capacity Market 'CM' and Contracts for Different 'CfD' activities.
Data Best Practice Guidance	means the guidance document issued by the Authority in accordance with Part D of Special Condition 2.11 (Digitalisation).
Defaulting Connection and Use of System Code Party	means a party to the CUSC which has failed to make payments to the licensee in accordance with the requirements of that code.
Demand Side Response	means a commitment by a person to provide an amount of electricity capacity by either reducing the import of electricity or exporting electricity generated (as more fully defined in the Electricity Capacity Regulations 2014).
De Minimis Business	has the meaning given to that term in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing).
Developer Capacity	has the meaning given to that term in the CUSC.
Digitalisation Action Plan	means a document prepared and published by the licensee in accordance with Part B of Special Condition 2.11 (Digitalisation).
Digitalisation Strategy	means a document prepared and published by the licensee in accordance with Part A of Special Condition 2.11 (Digitalisation).
Directly Attributable Costs	means costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees), that have not been otherwise funded through Transmission Network Charges or services under Special Condition 8B (Services treated as Excluded Services) of this licence as in force on 31 March 2021 or the NIC Funding Mechanism.
Directly Remunerated Services	has the meaning given to that term in Part A of Special Condition 2.9 (Services treated as Directly Remunerated Services).

Disallowed Expenditure	means revenue received (whether by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees) 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.
Disapplication Date	means the date proposed by the licensee under a Disapplication Request on and after which the specified Relevant Special Conditions (or any part or parts of them) would cease to have effect.
Disapplication Notice	means the notice under Special Condition 2.10 (Disapplication of Relevant Special Conditions) that terminates the application of the Relevant Special Conditions (or any part or parts of them) specified in that request.
Disapplication Request	means a request under Special Condition 2.10 (Disapplication of Relevant Special Conditions) to consent to the disapplication of the Relevant Special Conditions (in whole or in part).
Distribution Licence	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
DSAP Guidance	means the guidance document issued by the Authority in accordance with Part C of Special Condition 2.11 (Digitalisation).
Dual Fuel Activities	means those activities which are conducted by the licensee in conjunction with National Grid Gas plc (company number 2006000) (and its successors in title) in its role as gas system operator in order to be delivered in a manner that provides a single combined view of energy security, insights or coordination into the interactions between the gas and electricity sectors, and where such activities add value for energy consumers.
Dual Fuel Roles	means those employment roles which are engaged in Dual Fuel Activities and which are specified as such in the Compliance Statement established under Part D of Special Condition 2.3 (Business Separation requirements and compliance obligations)
Electricity Capacity Report	means the report prepared by the licensee and defined in Regulation 7 of the Electricity Capacity Regulations 2014.
Electricity Distribution Licensee	means the holder of a licence granted or treated as granted under section 6(1)(c) of the Act.

Electricity Licensee	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Electricity Supplier	means the holder of a supply licence granted or treated as granted under section 6(1)(d) of the Act.
Electricity System Restoration	means the procedure used to restore power in the event of a Total Shutdown or Partial Shutdown (each as defined in the Grid Code) of the National Electricity Transmission System.
Electricity System Restoration Assurance Framework	means an assurance framework prepared by the licensee for approval by the Authority containing, at a minimum, the information provided for under paragraph 2.2.8 (a)-(d) of Special Condition 2.2.
Electricity System Restoration Model	means the model used by the licensee to assess the capabilities of the National Electricity Transmission System and provide a range of credible Restoration Times.
Electricity System Restoration Standard	means the target Restoration Time(s) that the Secretary of State directs the licensee to have the capability to meet.
Eligible CNIA	means the amount of expenditure spent or accrued by the licensee in respect of Eligible CNIA Projects.
Eligible CNIA Internal Expenditure	means the amount of Eligible CNIA spent or accrued on the internal resources of the licensee.
Eligible CNIA Projects	means RIIIO-1 Network Innovation Allowance projects on which work commenced prior to 31 March 2021, pursuant to the requirements of the RIIIO-1 NIA Governance Document.
Eligible SIF Project	means a project undertaken by the licensee or any other Transmission Licensee that the Authority assess as satisfying such requirements of the SIF Governance Document as are necessary to enable the project to be funded under the SIF Funding Mechanism.
Eligible NIC Project	means a project undertaken by the licensee or any other 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.

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Embedded Transmission System	means a transmission system consisting of plant and equipment that includes relevant offshore lines which forms part of the National Electricity Transmission System by utilising a connection to an electricity distribution system.
EMR	means Electricity Market Reform.
EMR Administrative Functions	means any functions conferred on the licensee by or by virtue of: (a) the Electricity Capacity Regulations 2014, other than Part 3; (b) any capacity market rules made by the Secretary of State pursuant to section 34(1) of the Energy Act and any capacity rules made by the Authority pursuant to section 34(3) of the Energy Act; (c) the Contracts for Difference (Allocation) Regulations 2014; and (d) any allocation framework made by the Secretary of State pursuant to section 13(2)(a) of the Energy Act.
EMR Administrative Team	means the team established or to be established by the licensee in accordance with paragraph 2.4.9 of Special Condition 2.4 (Electricity Market Reform).
EMR Compliance Officer	means a competent person appointed for the purpose of facilitating compliance by the licensee with the EMR Relevant Duties.
EMR Compliance Statement	means a statement describing the practices, procedures and systems by which the licensee will secure compliance with the EMR Relevant Duties.
EMR Data Handling Functions	means the data anonymisation and data aggregation functions which shall be performed in order to achieve the objective specified in paragraph 2.4.6(a) of Special Condition 2.4 (Electricity Market Reform).

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EMR Data Handling Team	means the team established or to be established by the licensee in accordance with paragraph 2.4.5 of Special Condition 2.4 (Electricity Market Reform).
EMR Delivery Body Performance Report	means the report prepared by the licensee and as defined in Regulation 83 of the Electricity Capacity Regulations 2014.
EMR Functions	has the meaning given to that term in in Chapter 5 of Part 2 of the Energy Act.
EMR Relevant Duties	means the licensee's obligations pursuant to Special Condition 2.4 of Special Condition 2.4 (Electricity Market Reform).
Energy Act	means the Energy Act 2013.
Energy System Data	means facts and statistics collected together that describe the energy system (current, historic and forecast), including: the presence and state of infrastructure, its operation, associated market agreements and their operations, policy and regulation.
ESO Performance Panel	means a panel established by the Authority to make recommendations to the Authority on the performance of the licensee in a Business Plan Cycle.
ESO Price Control Financial Handbook	means the document of that name that was first published by the Authority to come into effect on 1 April 2021 and includes specific information and advice about the operation of the Annual Iteration Process and the ESO Price Control Financial Model, as modified from time to time in accordance with the provisions of Special Condition 5.1 (Governance of the ESO Price Control Financial Instruments).
ESO Price Control Financial Instrument	means the ESO Price Control Financial Handbook and the ESO Price Control Financial Model.
ESO Price Control Financial Model	means the model of that name (with a suffix referring to the month of November in Regulatory Year t-1) that was first published by the Authority to come into effect on 1 April 2021; (a) that is represented by a workbook in Microsoft Excel® format maintained under that name (with a Regulatory Year suffix) on the Authority's Website; and (b) that the Authority will use to determine the value of the term $SOIAR_t$ through the application of the Annual Iteration Process as modified from time to time in accordance with the provisions of Special Condition 5.1 (Governance of the ESO Price Control Financial Instruments).



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ESO Price Control Financial Model Working Group	means the working group identified in and whose terms of reference are set out in Chapter 2 of the ESO Price Control Financial Handbook.
ESORI Arrangements Guidance Document	means a document developed and published by the Authority in accordance with Part C of Special Condition 4.3 (Electricity System Operator Reporting and Incentive Arrangements).
Expenses Policy	means the policy described in Part C of Special Condition 2.14 (Remuneration Policy and Expenses Policy).
External costs of the Balancing Services Activity Revenue	means the revenue calculated in accordance with the formula set out in Part A of Special Condition 4.2 (Balancing Services Activity Revenue Restriction on External Costs).
Fuel Security Code	has the meaning given to that term in Standard Licence Condition A1 (Definitions and interpretation).
Funding Return	means the total amount (in respect of the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees) of any amounts arising under paragraph 3.3.4 of Special Condition 3.3 (RIIO-1 Network Innovation Competition).
Funding Return Mechanism	means the mechanism that provides for the recovery from the licensee and from other Electricity Transmission Licensees and Electricity Distribution Licensees, in each case to such extent (if any) as may be relevant, of: (a) Halted Project Revenues; (b) Disallowed Expenditure; (c) Returned Royalty Income; and (d) Returned Project Revenues.
Grid Code	has the meaning given to that term in Standard Licence Condition A1 (Definitions and interpretation).
Halted Project Revenues	means revenues received (whether by the licensee or by any other Transmission Licensee and Electricity Distribution Licensee) 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.

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Independent Examiner	means a person nominated by, and independent of, the licensee or any business or Associate of the licensee with the skill and knowledge to undertake an evaluation of the practices, procedures and systems implemented by the licensee in order to secure compliance with Special Condition 2.4 (Electricity Market Reform) and 2.3 (Business separation requirements and compliance obligations).
Interconnector Owner	means the holder for the time being of an electricity interconnector licence in relation to which licence the Authority has issued a Section G (Cap and Floor Conditions) Direction and in which Section G remains in effect (whether or not subject to any terms included in the Section G (Cap and Floor Conditions) Direction or to any subsequent variation of its terms, to which the licensee may be subject).
Joint Works Projects	means where the licensee and Transmission Owners or any successor company to each, agree to provide Commercial Operational Services so as to minimise costs on the national electricity transmission system when the costs are higher than £1,900,000.
Joint Works Projects Principles	means the following criteria that a project must meet to qualify as a Joint Works Project - that the project must: <ul style="list-style-type: none"> <li>(a) provide benefits to existing and future electricity consumers in Great Britain;</li> <li>(b) not be funded and be capable of being funded elsewhere and</li> <li>(c) must be supported by an independent review by an appropriate third-party independent expert on the licensee's analysis and conclusions on paragraph 4.4.6(a) and 4.4.6(b) of Special Condition 4.4 (SO-TO Mechanism).</li> </ul>
Licensed Activity	has the meaning given to the term "Transmission Business Activities" in Standard Condition B1 (Regulatory Accounts).
<u>Materiality Threshold</u>	<u>has the value £3m.</u>
Maximum Revenue	means the revenue calculated in accordance with the formula set out in Part B of Special Condition 3.1 (Transmission Network Revenue Restriction).
National Demand	has the meaning given to the term in the Grid Code.
National Electricity Transmission System	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.  
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19 October 2021

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Network Access Policy	means a design 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.
Network Operator	has the meaning given to the term in the Grid Code.
NIA	means the network innovation allowance provided by Special Condition 4.6 (The RII0-2 network innovation allowance).
NIC	means the network innovation competition provided by Special Condition 3.3 (RIIO-1 Network Innovation Competition).
NIC Funding	means the total amount of funding authorised by the Authority for the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.
NIC Funding Mechanism	is the mechanism by which the licensee recovers the amount of authorised NIC Funding and apportions that amount between the licensee and other Transmission Licensees and Electricity Distribution Licensees as appropriate in accordance with the NIC Governance Document.
NIC Governance Document	means the document of that name maintained by the Authority in accordance with Part C of Special Condition 3.3 (RIIO-1 Network Innovation Competition).
NTS System Operation Activity	has the meaning given to that term in Special Condition 1A.4 of National Grid Gas plc's gas transporter licence.
Offshore Transmission Licence	means a transmission licence held by an Offshore Transmission Owner.
Offshore Transmission Owner	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).

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Outage Change	<p>means a change notified to Transmission Owners, Offshore Transmission Owners or any successor company to each, by the licensee to the Outage Plan on or after Week 49, as updated from time to time in accordance with the STC, other than:</p> <p>(a) a change to the Outage Plan requested by Transmission Owners, Offshore Transmission Owners or any successor company to each (the “original change”); and</p> <p>(b) such changes notified to Transmission Owners, Offshore Transmission Owners or any successor company to each by the licensee which:</p> <p>(i) the licensee and Transmission Owners, Offshore Transmission Owners or any successor company to each agree are necessary in order to give effect to the original change; or</p> <p>(ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change, and</p> <p>(c) without prejudice to sub-paragraphs (a) and (b) above, any change to the Outage Plan notified to Transmission Owners, Offshore Transmission Owners or any successor company to each by the licensee which the licensee and the Transmission Owner or Offshore Transmission Owner agree is not an Outage Change under this licence condition (a “non-chargeable outage change”).</p>
Outage Plan	has the meaning given to that term the STC.
Partial Shutdown	has the meaning given to that term in the Grid Code.
PCFM Guidance	means the guidance document issued by the Authority in accordance with Part E of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model).
PCFM Variable Values	means the values in the table of that name in the ESO Price Control Financial Handbook.
Peak National Demand	means the outturn peak National Demand adjusted in accordance with the Weather Correction Methodology.
Peak National Demand Forecast	means the one-year or four-year ahead forecast of Peak National Demand that is associated with the licensee’s Peak System Demand Forecast and estimate of capacity to meet that Peak System Demand Forecast in the Electricity Capacity Report.

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Peak System Demand Forecast	means the forecast in the Electricity Capacity Report of peak demand across the whole of the electricity system met by all forms of generation; which includes forecasts of Peak National Demand, peak demand met by distributed generation and peak demand reduction by Demand Side Response.
Pension Scheme Established Deficit	means the difference between assets and liabilities, determined at any point in time, attributable to pensionable service up to the end of the 31 March 2012 and relating to the Transmission Business under the Authority's Price Control Pension Principles, and applies equally if there is a subsequent surplus.
Permitted Purpose	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Prescribed Rates	means: (a) business rates in England and Wales; and (b) non-domestic rates in Scotland, or any equivalent tax or duty replacing those rates that is levied on the licensee in respect of its Licensed Activity.
Price Control Pension Principles	means the principles set out in the Authority's guidance note on price control pension principles issued as Appendix 3 to the decision letter, 'Decision on the Authority's policy for funding Pension Scheme Established Deficits' dated 7 April 2017.
Price Control Period	means the period of five Regulatory Years commencing on 1 April 2021.
Project Direction	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.
Recovered Revenue	means the revenue (measured on an accruals basis) derived from the provision of Transmission Network Services (including to any separate business, other than the Transmission Business) in the Regulatory Year, after deduction of value added tax (if any) and any other taxes charged directly by reference to such accruals.
Regulatory Year	means a period of twelve months commencing on 1 April.

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Related Undertaking	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Relevant Other Competitive Businesses	<p>means the business of:</p> <ul style="list-style-type: none"> <li>(a) participating in, or intending to participate in, a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted;</li> <li>(b) an Offshore Transmission Owner;</li> <li>(c) undertaking carbon capture and storage activities;</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>(d) owning or operating an entity participating in, or intending to participate in, activities which require a licence under section 6(1)(e) of the Electricity Act 1989.</li> </ul>
Relevant Regulated Businesses	<p>means National Grid Electricity Transmission plc (company number 2366977) (and its successors in title) and its affiliates or related undertakings participating in the transmission of electricity pursuant to a transmission licence treated as granted to National Grid Electricity Transmission plc under section 6(1)(b) of the Act; and</p> <p>National Grid Gas plc (company number 2006000) (and its successors in title) and its affiliates or related undertakings participating in gas transportation pursuant to a gas transporter licence treated as granted to National Grid Gas plc under section 7 of the Gas Act 1986.</p>
Relevant Special Conditions	<p>means Special Condition 4.1 (System Operator Internal Revenue Restriction), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 4.1 to which a Disapplication Request under Special Condition 2.10 (Disapplication of Relevant Special Conditions) relates; and</p> <p>Special Condition 3.1 (Transmission Network Revenue Restriction), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 3.1 to a Disapplication Request under Special Condition 2.10 (Disapplication of Relevant Special Conditions).</p>

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Relevant Valuation Agency	means: (a) the Valuation Office Agency in England and Wales (or any other public body acquiring its functions); and (b) the Scottish Assessors Association in Scotland (or any other public body acquiring its functions).
Renumeration Policy	means the policy described in Part B of Special Condition 2.14 (Remuneration Policy and Expenses Policy).
Restoration Approach	means the method by which the licensee will restore the National Electricity Transmission System in the event of a Total Shutdown or Partial Shutdown (each as defined in the Grid Code).
Restoration Services	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C)
Restoration Time	means the time it would take to energise a part or parts of the National Electricity Transmission System following a Total Shutdown or Partial Shutdown (each as defined in the Grid Code).
Retail Prices Index	means the monthly values of the “RPI All Items Index”, series ID “CHAW”, published by the Office for National Statistics (or any other public body acquiring its functions).
Returned Project Revenues	means (a) revenues received (whether by the licensee or any other Transmission Licensee or Electricity Distribution Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project, that the Authority determines have not been spent, and where that Eligible NIC Project has been carried out in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction; or (b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensees) other than Returned Royalty Income, that the Authority determines are payable to customers.
Returned Royalty Income	means revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees), less Directly Attributable Costs, that is payable to customers under the NIC Funding

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	Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
RIGs	means the document published by the Authority in accordance to Standard Condition B15 (Regulatory Instructions and Guidance).
RIIO-1	means the price control that applied to the licensee for the period of eight years beginning on 1 April 2013.
RIIO-1 Bad Debt	means the Bad Debt incurred during RIIO-1.
RIIO-1 Network Innovation Allowance	means the arrangements established by Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021.
RIIO-1 NIA Governance Document	means the document issued by the Authority in accordance with Part E of Special Condition 3H (The Network Innovation Allowance) as in force on 31 March 2021.
RIIO-2 NIA Governance Document	means the document issued by the Authority in accordance with Part B of Special Condition 4.6 (The RIIO-2 network innovation allowance).
RIIO-2 NIA Projects	means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the RIIO-2 NIA Governance Document as are necessary to enable the projects to be funded under the provisions of Special Condition 4.6 (the RIIO-2 network innovation allowance).
RIIO-1 SO Bad Debt	means the SO Bad Debt incurred during RIIO-1.
RIIO-2 period	means the price control that applies to the licensee for the period of five Regulatory Years beginning on 1 April 2021 and ending on 31 March 2026.
Security Period	for the purposes of Special Condition 2.8 (Allowances in respect of a Security Period) 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 into effect and terminating on such 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, 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.

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Shared Services	means shared corporate services (excluding regulatory services) as specified in the EMR Compliance Statement. Except in relation to Special Condition 2.3 (Business separation requirements and compliance obligations) where it means shared corporate services (which shall not include regulatory services) as specified in the compliance statement established under Part D.
SIF	means the strategic innovation fund established by Special Condition 3.4 (The strategic innovation fund).
SIF Directly Attributable Costs	means costs relating to the maintenance and management of intellectual property generated through Eligible SIF Projects, whether undertaken by the licensee or any other Transmission Licensee that have not been otherwise remunerated through Transmission Network Charges, Directly Remunerated Services or the SIF Funding Mechanism.
SIF Disallowed Expenditure	means revenue received, whether by the licensee or any other Transmission Licensee, under the SIF Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant Project Direction.
SIF Funding	means the total amount of funding authorised by the Authority for the licensee, other Transmission Licensees and any body administering the SIF, in accordance with the provisions of the SIF Governance Document, for the purpose of funding the administration of the SIF and Eligible SIF Projects.
SIF Funding Mechanism	means the mechanism by which the licensee recovers the amount of authorised SIF Funding in any Regulatory Year and apportions that amount between the licensee, other Transmission Licensees and any body administering the SIF as appropriate in accordance with the SIF Governance Document.
SIF Funding Return	means the total amount, in respect of the licensee, other Transmission Licensees and any body administering the SIF, of any amounts arising under the SIF Funding Return Mechanism.



SIF Funding Return Mechanism	<p>means the mechanism which provides for the recovery from the licensee, from other Transmission Licensees and any body administering the SIF, in each case to such extent (if any) as may be relevant, of:</p> <ul style="list-style-type: none"> <li>a) SIF Halted Project Revenues;</li> <li>b) SIF Disallowed Expenditure;</li> <li>c) SIF Returned Royalty Income;</li> <li>d) SIF Returned Project Revenues; and</li> <li>e) funds for administering the SIF.</li> </ul>
SIF Governance Document	means the document issued by the Authority under Part C of Special Condition 3.4 (The strategic innovation fund)
SIF Halted Project Revenues	means revenues received, whether by the licensee or any other Transmission Licensee under the SIF Funding Mechanism in respect of an Eligible SIF 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 SIF Governance Document or the terms of the relevant Project Direction.
SIF Project Direction	means a direction issued by the Authority pursuant to the SIF Governance Document setting out the terms to be followed in relation to an Eligible SIF Project as a condition of its funding under the SIF Funding Mechanism.
SIF Returned Project Revenues	<p>means:</p> <ul style="list-style-type: none"> <li>(a) revenues received, whether by the licensee or any other Transmission Licensee under the SIF Funding Mechanism in respect of an Eligible SIF Project that the Authority determines have not been spent, and where that project has been carried out in accordance with the applicable provisions of the SIF Governance Document and/or the terms of the relevant SIF Project Direction; or</li> <li>(b) revenues earned from Eligible SIF Projects, whether undertaken by the licensee or any other Transmission Licensee other than SIF Returned Royalty Income, that the Authority determines are payable to customers.</li> </ul>
SIF Returned Royalty Income	means revenue earned from intellectual property generated through Eligible SIF Projects, whether undertaken by the licensee or any other Transmission Licensee less SIF Directly Attributable Costs, and that is payable to customers under the SIF Funding

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	Mechanism, as calculated in accordance with the provisions of the SIF Governance Document.
Single Appointed Director	means a member of the managerial board for the System Operator, for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the compliance officer set out in paragraph 2.3.27 of Special Condition 2.3 (Business Separation requirements and compliance obligations).
Single Responsible Director	means a person appointed for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the EMR Compliance Officer and the licensee's compliance with its EMR Relevant Duties.
Site-Specific Charges	means charges defined in Schedule Ten of STC.
SO Bad Debt	means the expense incurred by the licensee when Balancing Services Activity related charges owed to the licensee are not considered recoverable and which crystallises when normal payment terms have been exceeded and the licensee has made all reasonable efforts to collect the debt but is unable to recover the amounts owed.
SO Internal Allowed Revenue	means the revenue calculated in accordance with the formula set out in Part B of Special Condition 4.1 (System Operator Internal Revenue Restriction).
SONIA	means the daily values of the sterling overnight index average, series ID "IUDSOIA", published by the Bank of England (or any other public body acquiring its functions).
SO-TO Optimisation Governance Document	means the document issued by the Authority under Part A of Special Condition 2.13 (SO-TO Optimisation Governance).
SO-TO Optimisation Report	means a document prepared and published by the licensee in accordance with Part B of Special Condition 2.13 (SO-TO Optimisation Governance).
SO-TO Optimisation Solutions	has the meaning given to that term in the SO-TO Governance Document.
Specified business separation duties	means Special Condition 2.3 (Business Separation requirements and compliance obligations), Standard Condition B5 (Prohibition of Cross-subsidies), Standard Condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2.6 (Prohibited Activities and Conduct of the Transmission Business).

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Stakeholder	for the purposes of Special Condition 2.1 (EMR Arrangements) refers to the general body of persons (including but not limited to Customers or other actual users of GB Transmission System and Distribution System) who are affected by or have an interest in the licensee's operations.
STC	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
System Operator - Transmission Owner Code	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
System Operator Functions	means for the purposes of Special Condition 2.3 (Business separation requirements and compliance obligations), the activities of the licensee pursuant to the obligations under Section C (System Operator Standard Conditions) of this licence for which there are no equivalent obligations under Section D (Transmission Owner Standard Conditions) or Section E (Offshore Transmission Owner Standard Conditions), of the Standard Conditions contained in a Transmission Licence.
System Operator Functions Information	means all information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee's employees, agents, contractors and advisors solely by virtue of the performance of System Operator Functions by the licensee, but excluding all information that has entered the public domain otherwise than as a direct or indirect consequence of a breach of this licence.
Tax Reconciliation	means the reconciliation between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability as reported to the Authority as part of the Price Control Financial Model.
Tax Strategy	has the meaning given to that term in Schedule 19 to the Finance Act 2016.
Time Value of Money Adjustment	has the meaning given to that term in the glossary of the ESO Price Control Financial Handbook.
Total NIA Expenditure	means expenditure that satisfies the requirements of the RIIO-2 NIA Governance Document and is partly recovered by the licensee under Special Condition 4.6 (The RIIO-2 network innovation allowance).
Total Shutdown	has the meaning given to that term in the Grid Code.

Transmission Area	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Transmission Business	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Transmission Business Activities	has the meaning given to that term in Standard Condition B1 (Regulatory Accounts).
Transmission Entry Capacity	has the meaning given to that term in the CUSC.
Transmission Licence	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Transmission Network Charges	means charges levied by the licensee in respect of the provision of Transmission Network Services.
Transmission Network Revenue	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Transmission Network Services	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Transmission Owner	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Ultimate Controller	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
User System	has the meaning given to that term in the Grid Code.
Weather Correction Methodology	means the methodology used by the licensee at the time a Peak National Demand Forecast was produced to correct the associated outturn Peak National Demand to Annual Average Cold Spell Conditions.
Week 49	has the meaning given to that term in STC.
Working Day	means any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the United Kingdom.

## Special Condition 1.2 Modification of Standard Conditions

- 1.2.1 For the purposes of this licence, the Standard Conditions are to be read with the modifications set out in the following table:

### Table of Modifications

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.  
National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 19 October 2021

<i>Standard Condition</i>	<i>Provision</i>	<i>Modification</i>
A1 (Definitions and interpretation)	Immediately after definition of “eligible generator”.	Insert— ““EMR functions” has the same meaning as in Chapter 5 of Part 2 of the Energy Act 2013;”.
A1 (Definitions and interpretation)	Definition of “permitted purpose”.	At the end of subsection (c) insert— “; and (d) the EMR functions.”
A1 (Definitions and interpretation)	Definition of “transmission business”.	<p>(1) After “maintenance” insert the words “or commercial management”.</p> <p>(2) For sub-paragraph (i) and the remainder of the definition before the definition of “transmission constraint costs” substitute—</p> <p>(i) “any business of the licensee or any affiliate or related undertaking in the provision of settlement services in connection with the BSC or the Pooling and Settlement Agreement; or</p> <p>(ii) any other business of the licensee of any affiliate or related undertaking in the provision of services to or on behalf of any one or more persons; or</p> <p>(iii) any business of National Grid Electricity Transmission plc (Company Number 2366977) and its affiliates or related undertakings participating in the transmission of electricity pursuant to a transmission licence held by National Grid Electricity Transmission plc”.</p>
B1 (Regulatory Accounts)	Paragraph 2(a).	After the word “business” insert— “(which, for the purposes of this condition and Standard Conditions B5 and B6 only, includes the EMR functions)”.
B5 (Prohibition of Cross Subsidies)	Paragraph 1.	Between the words “business” and “shall” insert “(which, for the purposes of this condition and Standard Condition B1 and B6 only, includes the EMR functions)”.

<i>Standard Condition</i>	<i>Provision</i>	<i>Modification</i>
B6 (Restriction on Activity and Financial Ring Fencing)	Paragraph 1.	After “transmission business” insert “(which, for the purposes of this condition and Standard Conditions B1 and B5 only, includes the EMR functions)”.
B7 (Availability of Resources)	Paragraph 1(b).	At end insert— “; and (c) to properly and efficiently carry on the EMR functions and to comply in all respects with its obligations under EMR legislation”.
B7 (Availability of Resources)	Paragraph (2)(a).	After the words “transmission business”, in each place, insert “and EMR functions”.
B7 (Availability of Resources)	Paragraph 2(b).	After the words “transmission business”, in each place, insert “and EMR functions”.
B7 (Availability of Resources)	Paragraph 2(c).	After the words “transmission business”, in each place, insert “and EMR functions”.
B7 (Availability of Resources)	Paragraph 4(a).	After the words “transmission business”, in each place, insert “and EMR functions”.
B7 (Availability of Resources)	Paragraph 4(b).	After the words “transmission business”, in each place, insert “and EMR functions”.
B7 (Availability of Resources)	Paragraph 4(c).	After the words “transmission business”, in each place, insert “and EMR functions”.
B8 (Undertaking from ultimate controller)	Paragraph 1.	Between the words “under” and “the” insert “EMR legislation,”.
B8 (Undertaking from ultimate controller)	After paragraph 3.	Insert— “4. The licensee will not be in breach of paragraph 1 if during the period of 7 days beginning with the date on which this paragraph comes into force, or such other period as the Authority may direct, the licensee procures an updated version of the undertaking required by paragraph 1, that includes reference to its obligations under or by virtue of EMR legislation”.
B22 (Requirement for sufficiently	/	For word “two” immediately before the words “non-executive directors” substitute “three”.

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.  
National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 19 October 2021

<i>Standard Condition</i>	<i>Provision</i>	<i>Modification</i>
independent directors)		
C2 (Prohibited activities)	Paragraph 2.	Immediately before the words “shall not, on its own account” insert “that is not subject to Condition D6”.
C2 (Prohibited activities)	After paragraph 3.	“4. For the avoidance of doubt, paragraph 2 will not prohibit or restrict the ability of the licensee to carry out its EMR functions.”

# Chapter 2: General Obligations

## Special Condition 2.1 EMR Arrangements

### Introduction

- 2.1.1 The purpose of this condition is to set out the Weather Correction Methodology and the Customer and Stakeholder Satisfaction Surveys that the licensee must undertake as part of its obligations relating to its EMR Functions.
- 2.1.2 The effect of this condition is to ensure that the licensee delivers its EMR Functions and that the Authority is able to deliver the EMR Delivery Body Performance Report.

### Part A: Weather Correction Methodology

- 2.1.3 The licensee must prepare and publish the Weather Correction Methodology used for calculating Peak National Demand.
- 2.1.4 The Weather Correction Methodology to be used for calculating Peak National Demand is to be the Weather Correction Methodology in place at the time each Peak National Demand Forecast was produced.
- 2.1.5 The Weather Correction Methodology must be published by the licensee at the same time as the Electricity Capacity Report that uses that Peak National Demand Forecast.
- 2.1.6 The licensee must:
  - (a) write annually to the Authority, at the time of publishing the Electricity Capacity Report, setting out the steps it has taken to improve its Peak System Demand Forecast; and
  - (b) publish the letter on its website as soon as reasonably practicable.

### Part B: Customer and Stakeholder Satisfaction Surveys

- 2.1.7 Unless otherwise agreed with the Authority, the licensee must carry out Customer and Stakeholder Satisfaction Surveys at least once in each Regulatory Year to assess Customer and Stakeholder satisfaction with its Capacity Market 'CM' and Contracts for Different 'CfD' activities.
- 2.1.8 If no results of a CfD allocation round were published either in or in respect of a Regulatory Year, then the licensee is not obliged to conduct the CfD Customer and Stakeholder Satisfaction Surveys.
- 2.1.9 If no results of a CM auction were published either in or in respect of a Regulatory Year, then the licensee is not obliged to conduct the CM Customer and Stakeholder Satisfaction Surveys.



- 2.1.10 When conducting a Customer and Stakeholder Satisfaction Survey in relation to either CM or CfD, the licensee—
- (a) may include such questions as it considers appropriate; but
  - (b) must include a question that asks for overall satisfaction with the licensee's performance of its CfD or CM activity respectively, to be rated on a scale of 1 to 10, where 1 is low and 10 is high.
- 2.1.11 The licensee must report on the outcomes of each overall customer and stakeholder satisfaction question in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).
- 2.1.12 The licensee must publish the outcomes of each survey on its website during the period of three months beginning with the date on which each survey takes place.
- 2.1.13 The licensee must provide the Authority with a report on each Customer and Stakeholder Satisfaction Survey and the report must include the following information:
- (a) a list of each of the questions included, and their average scores across all respondents;
  - (b) a comprehensive summary of responses to each of the questions; and
  - (c) a detailed list of future actions the licensee will take to build on the responses received in the Customer and Stakeholder Satisfaction Surveys.
- 2.1.14 The Authority will review the licensee's approach to conducting the surveys and reporting the outcome of the satisfaction questions as required by paragraph 2.1.13 and provide feedback to the licensee.

## **Special Condition 2.2 Electricity System Restoration Standard**

- 2.2.1 The purpose of this condition is to require the licensee to comply with the Electricity System Restoration Standard once the licensee has received a direction from the Secretary of State designating the Electricity System Restoration Standard. It also requires the licensee to produce an Electricity System Restoration Assurance Framework to demonstrate compliance with the Electricity System Restoration Standard.

### **Part A: Electricity System Restoration Standard**

- 2.2.2 The licensee must comply at all times during a Regulatory Year with the Electricity System Restoration Standard, once the licensee has received:
- (a) a direction from the Secretary of State designating the Electricity System Restoration Standard and the date from which it shall apply; or
  - (b) any subsequent direction(s) from the Secretary of State which has the effect of amending the Electricity System Restoration Standard.

- 2.2.3 The licensee must procure Restoration Services and propose any modifications to the Grid Code and other industry codes that are required to comply with the Electricity System Restoration Standard designated under paragraph 2.2.2.
- 2.2.4 The licensee must ensure that its procurement of Restoration Services and proposal of modifications to the Grid Code and other industry codes are completed in time to ensure that it has the ability to comply with the Electricity System Restoration Standard by the date the Secretary of State directs that it shall apply.
- 2.2.5 The licensee will not have failed to comply with its obligations under paragraphs 2.2.2, 2.2.3 or 2.2.4 where, upon receiving a written and sufficiently detailed explanation from the licensee, the Authority is satisfied that the licensee has been prevented from complying for reasons that are outside of its reasonable control.

## **Part B: Electricity System Restoration Assurance Framework**

- 2.2.6 Within 90 days following receipt of a direction from the Secretary of State designating the Electricity System Restoration Standard pursuant to paragraphs 2.2.2(a) and 2.2.2(b), and thereafter at 12 monthly intervals (unless otherwise directed by the Authority), the licensee must submit an Electricity System Restoration Assurance Framework to the Authority for approval.
- 2.2.7 Prior to submission of the Electricity System Restoration Assurance Framework to the Authority, the licensee must consult the Authority and other Electricity Licensees for not less than 30 days on its proposed Electricity System Restoration Assurance Framework.
- 2.2.8 The Electricity System Restoration Assurance Framework must include, but need not be limited to:
  - (a) The strategy for the provision of Electricity System Restoration which is to be applied for the next Regulatory Year, for the two Regulatory Years after that and for subsequent Regulatory Years. This must include a Restoration Approach to ensure that the Electricity System Restoration Standard is capable of being complied with at all times during a Regulatory Year, and identification of technologies and approaches for the provision of Restoration Services;
  - (b) A description of how the licensee will monitor its ability to comply with the Electricity System Restoration Standard at all times during a Regulatory Year;
  - (c) Ex-ante modelling of Restoration Times for the subsequent Regulatory Year using credible projections of the required National Electricity Transmission System data, as well as ex-post modelling of Restoration Times using actual National Electricity Transmission System data from the previous Regulatory Year; and

- (d) Sufficient details of the methodology, assumptions and data used by the licensee to reflect the capabilities of the National Electricity Transmission System during the subsequent Regulatory Year to allow other Electricity Licensees to assess and provide comment on how well the licensee is representing the capabilities of the National Electricity Transmission System within the Electricity System Restoration Model.
- 2.2.9 The submission of the Electricity System Restoration Assurance Framework must be accompanied by a report from an independent auditor of internationally recognised standing appointed by the licensee. This report must provide an assessment of the licensee's Electricity System Restoration Model, that must include, but need not be limited to, an ex-ante assessment of how well that model's input data, technical assumptions, and calculations will represent the capabilities and characteristics of the National Electricity Transmission System during the subsequent Regulatory Year.

### **Part C: Authority Approval of Electricity System Restoration Assurance Framework**

- 2.2.10 If, following a submission under paragraph 2.2.6, the Authority rejects the Electricity System Restoration Assurance Framework it will direct the licensee to resubmit a revised Electricity System Restoration Assurance Framework to the Authority for approval, within a period specified in that direction.
- 2.2.11 If the Authority approves the Electricity System Restoration Assurance Framework, the licensee must publish the Electricity System Restoration Assurance Framework and the report by the independent auditor on its website as soon as is reasonably practicable following approval.
- 2.2.12 Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph 2.2.11, it must seek the Authority's approval to publish a redacted version of the Electricity System Restoration Assurance Framework, or report by the independent auditor.

### **Part D: Revisions to Electricity System Restoration Assurance Framework**

- 2.2.13 Before revising the approved Electricity System Restoration Assurance Framework, the licensee must submit the proposed revisions to the Authority for approval.
- 2.2.14 Except where the Authority directs otherwise, before seeking any revision of the approved Electricity System Restoration Assurance Framework the licensee must:
- (a) send a copy of the proposed revisions to the Authority;
  - (b) consult other Electricity Licensees on the proposed revisions and allow them a period of not less than 30 days in which to make representations to the licensee;

- (c) submit to the Authority within 30 days of the close of the consultation period referred to in paragraph 2.2.14(b) a report setting out:
  - i. the revisions originally proposed;
  - ii. the representations (if any) made to the licensee; and
  - iii. any changes to the revisions.
- 2.2.15 Where the Authority directs that any part of paragraph 2.2.14 shall not apply, the licensee shall comply with such other requirements as are specified in that direction.
- 2.2.16 Following receipt of a revision under paragraph 2.2.14(c) the Authority may direct the licensee to make the revision, where the Authority is satisfied that the revision is economic and efficient and will provide value for money for electricity consumers in Great Britain.
- 2.2.17 Unless the Authority issues a direction under paragraph 2.2.16 within a period of 60 days, beginning with the date of the submission made by the licensee under paragraph 2.2.15(c), the proposed revision will be treated as not being approved by the Authority.
- 2.2.18 If the Authority directs any revision to be made under paragraph 2.2.16 the licensee must:
  - (a) revise the approved Electricity System Restoration Assurance Framework in accordance with the Authority's direction; and
  - (b) publish the revised Electricity System Restoration Assurance Framework on its website during the period of 7 days beginning with the date of receipt of a direction under paragraph 2.2.16.
- 2.2.19 Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph 2.2.18(b), it must seek the Authority's approval to publish a redacted version of the revised Electricity System Restoration Assurance Framework.

## **Special Condition 2.3 Business Separation requirements and compliance obligations**

### **Introduction**

- 2.3.1 The purpose of this condition is to set out the business separation requirements between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, the licensee's obligations as to its conduct in performing its System Operator Functions, and the procedures the licensee must follow to comply with these obligations.

- 2.3.2 Part A sets out the objectives that the licensee must achieve when undertaking its System Operator Functions. Part B sets out the business separation requirements between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses. Part C sets out the obligations on the licensee to restrict the use of information that the licensee has access to through its System Operator Functions. Part D sets out the Compliance Statement the licensee must publish to describe how it is meeting its specified business separation duties, as defined in paragraph 2.3.20. Part E sets out requirements on the licensee to appoint an independent Compliance Officer and annually report on compliance against the licensee's duties.

#### **Part A: Objectives**

- 2.3.3 In performing its System Operator Functions, the licensee must act in a manner intended to secure that neither the licensee, nor any Associate of the licensee, obtains an unfair commercial advantage, including any advantage from a preferential or discriminatory arrangement as a result of the licensee carrying out its System Operator Functions.

#### **Part B: Legal and functional separation of the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses**

- 2.3.4 The licensee must, in carrying out its licensed activities, put in place and at all times maintain such systems of control and other governance arrangements as are necessary to ensure that the licensee complies with the obligations contained in Standard Condition B5 (Prohibition of cross-subsidies), Standard Condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2.6 (Prohibited Activities and Conduct of the Transmission Business).
- 2.3.5 Without prejudice to the licensee's obligations under the conditions referred to in paragraph 2.3.4 and Special Condition 2.4 (Electricity Market Reform), the licensee must at all times conduct its licensed activities other than Dual Fuel Activities separately from the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, provided that nothing in Part B of this condition prevents the licensee from complying with any Section E (Offshore Transmission Owner of Last Resort) Direction made pursuant to standard condition B18 (Offshore Transmission Owner of Last Resort).
- 2.3.6 The licensee must ensure that the Relevant Other Competitive Businesses and the Relevant Regulated Businesses are conducted entirely by corporate entities each of which is separate from the licensee and that the licensee does not, directly or indirectly, hold any shares or other investments:
- (a) in any corporate entity which conducts any of the Relevant Other Competitive Businesses or Relevant Regulated Businesses or which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or Relevant Regulated Businesses or any of the assets used in or dedicated to

any of the Relevant Other Competitive Businesses or Relevant Regulated Businesses; or

(b) which give the holder an entitlement to vote at the general meetings of any of the corporate entities which conduct the Relevant Other Competitive Businesses or Relevant Regulated Businesses or in any company which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or Relevant Regulated Businesses.

2.3.7 The licensee must ensure that its accounts are maintained and to the extent required by law audited and reported separately from those of any corporate entity which conducts Relevant Other Competitive Business or Relevant Regulated Businesses.

2.3.8 The licensee must ensure that persons engaged in the management or operation of the licensee (up to and including the members of the licensee's Board) are not simultaneously engaged, either full or part time, in the management or operation:

a) of any Relevant Other Competitive Business or any corporate entity which conducts Relevant Other Competitive Business; or

b) of any Relevant Regulated Business except for persons in Dual Fuel Roles engaged in Dual Fuel Activities,

other than in the provision of Shared Services provided by the licensee to its Associates and the provision of services which constitute de minimis business to the extent that the provision of those services by the licensee complies with the requirements of standard conditions B5 (Prohibition of cross-subsidies), B6 (Restriction on Activity and Financial Ring Fencing) and B9 (Indebtedness).

2.3.9 The licensee must ensure that arrangements are in place which are effective in restricting access by persons engaged in the management or operation of any of the Relevant Other Competitive Businesses or the Relevant Regulated Businesses (except for persons in Dual Fuel Roles engaged in Dual Fuel Activities) to:

(a) any part of any premises which is occupied by persons engaged in the management or operation of the licensee; and

(b) any equipment, facilities or property employed for the management or operation of the licensee.

2.3.10 Subject to paragraph 2.3.11 the licensee must ensure that the systems for the recording, processing or storage of data (including System Operator Functions Information) to which persons engaged in the management or operation of the licensee have access cannot be accessed by persons engaged in the management or operation of the Relevant Other Competitive Businesses or by



persons engaged in the management or operation of the Relevant Regulated Businesses.

- 2.3.11 Paragraph 2.3.10 shall not apply to the operational information systems accessed by persons engaged in the management or operation of the licensee and by persons engaged in the management or operation of the Relevant Regulated Businesses and that are specified in the Compliance Statement established under Part D.

### **Part C: Restrictions on the use of System Operator Functions Information**

- 2.3.12 The licensee must establish and maintain a code of conduct governing the disclosure and use of System Operator Functions Information. The licensee must set out the code of conduct in the Compliance Statement, as provided for in paragraph 2.3.16.
- 2.3.13 The licensee must ensure that its employees, agents, contractors and advisers ensure that System Operator Functions Information is not directly or indirectly disclosed to, solicited, or used by any person who is not engaged in System Operator Functions (up to and including the members of the licensee's board of directors), other than as provided for in paragraph 2.3.14.
- 2.3.14 Paragraph 2.3.13 shall not apply to the disclosure of System Operator Functions Information:
- (a) where the licensee is specifically required to do so as a condition of this licence;
  - (b) as required or permitted under the STC;
  - (c) to persons engaged in the provision of Shared Services, to the extent necessary to allow them to carry out their respective functions in support of the System Operator Functions;
  - (d) to persons in Dual Fuel Roles, to the extent necessary to allow them to carry out Dual Fuel Activities;
  - (e) which is required by any requirement of law or regulation, or the rules of any governmental or regulatory authority having jurisdiction over the licensee, or for the purposes of facilitating the performance of any functions of the Secretary of State or the Authority;
  - (f) where the licensee has obtained prior written consent for such disclosure of such System Operator Functions Information, provided that the extent of such disclosure is consistent with the consent obtained;
  - (g) to National Grid Gas plc ("NGG") where such disclosure is required by NGG for purposes connected with the carrying on of NTS System Operation Activity, and so authorised by the gas transporter licence granted to NGG under the Gas Act 1986;

(h) to the shareholder of the licensee (being the ultimate controller of the licensee in accordance with paragraph (a) of the definition of ultimate controller) to the extent that such disclosure is reasonably required to ensure effective corporate governance through enabling the shareholder to:

- (i) provide effective oversight of the licensee;
- (ii) consider and decide on matters that are required to be referred to it for approval; and
- (iii) comply with any reporting requirement prescribed by a requirement of law, regulation or the rules of any authority having jurisdiction over the shareholder.

provided always that the use of such information by the shareholder of the licensee is at all times in accordance with the terms of the ultimate controller undertaking provided by the shareholder pursuant to condition B8 (Undertaking from ultimate controller); or

- (i) where authorised in advance in writing by the Authority.

2.3.15 The licensee must ensure that any System Operator Functions Information received, disclosure of which would in the view of the owner of the information affect their commercial interests, is treated as confidential and any disclosure of such information must comply with paragraphs 2.3.13 and 2.3.14.

#### **Part D: Compliance statement and compliance documents**

2.3.16 By the end of the period of 30 days beginning with the date on which this condition comes into effect, the licensee must submit to the Authority:

- (a) the Compliance Statement, describing the practices, procedures and systems by which the licensee will secure compliance with the specified business separation duties, as defined in paragraph 2.3.21;
- (b) the proposed form of the Compliance Report, as provided for in paragraph 2.3.28; and
- (c) the proposed form of the Compliance Certificate, as provided for in paragraph 2.3.29(d).

2.3.17 On receipt of the documents provided for in paragraph 2.3.16, or any revisions of them, as provided for in paragraph 2.3.18(b), the Authority will:

- (a) approve each document and notify the licensee of approval; or
- (b) give a direction to the licensee that one or more of the documents requires further development and the date by which the licensee is required to submit a revision to the Authority for approval.

2.3.18 Following the Authority's approval of the documents provided for in paragraph 2.3.16, the licensee must:



- (a) unless the Authority otherwise consents or directs, at all times comply with the terms of the approved Compliance Statement; and
  - (b) at least once in every 12 months, or at such other interval as the Authority may direct, review these documents and revise them as necessary, including when circumstances change such that the documents no longer secure compliance with the specified business separation duties as defined in paragraph 2.3.21, to ensure that they continue to be complete and accurate in all material respects and the licensee must submit any revisions made to these documents to the Authority and any revisions will only become effective once the Authority has approved them, in accordance with paragraph 2.3.17.
- 2.3.19 The licensee must publish a copy of the approved Compliance Statement and each revision on its website during the period of 15 Working Days beginning with the date of its approval by the Authority.
- 2.3.20 The Compliance Statement must in particular (but without prejudice to the generality of paragraph 2.3.16 set out how the licensee will meet:
- (a) the objectives in Part A;
  - (b) the business separation requirements provided for in Part B, with specific reference to:
    - (i) the arrangements for managerial and operational separation (including - but not limited to - arrangements to ensure the independence of the licensee's chief executive, directors, senior managers and staff), as required in paragraph 2.3.8;
    - (ii) the arrangements for access restrictions, including processes to partition and control access to and visibility of data within operational information systems, as required in paragraphs 2.3.9, 2.3.10 and 2.3.11;
    - (iii) the treatment of Shared Services across the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, together with a list of those services which fall under the definition of Shared Services, including providing for certain Shared Services to be provided to the licensee under a dedicated business partner arrangement to ensure any real or perceived conflict of interests are addressed;
    - (iv) the arrangements to manage the transfer of employees between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, including treating all such transfers as sensitive and accordingly subject to the review of the Compliance Officer appointed under Part E;
    - (v) the arrangements relating to the recruitment and employment of the licensee's employees and the incentivisation of the licensee's

managers which, save for managers in Dual Fuel Roles engaged in Dual Fuel Activities, will be linked to the performance of the licensee only;

(vi) developing and maintaining a new visual and corporate identity for the licensee's Transmission Business that shall be distinct from those of the Relevant Other Competitive Businesses and the Relevant Regulated Businesses; and

(vii) a description of the Dual Fuel Activities and Dual Fuel Roles;

(c) the restrictions on the use of System Operator Functions Information and the exceptions to such restrictions provided for in Part C; and

(d) the appointment of a Compliance Officer and compliance reporting, provided for in Part E.

### **Part E: Appointment of a compliance officer and compliance reporting**

2.3.21 The licensee must ensure, following consultation with the Authority, that a Compliance Officer is appointed for the purpose of facilitating compliance by the licensee with the obligations pursuant to the specified business separation duties. The person appointed as the Compliance Officer pursuant to this paragraph may also hold other Compliance Officer roles for the licensee.

2.3.22 The licensee must appoint a Single Appointed Director to the Board of the licensee in relation to the obligations set out in this condition.

2.3.23 The licensee must establish a Compliance Committee chaired by a sufficiently independent director appointed by the licensee in accordance with Condition B22 (Requirement for sufficiently independent directors), to report to the Board; the Committee must include among its members the Single Appointed Director and such persons in the licensee's business as are responsible for the management of regulatory issues relating to the licence.

2.3.24 The licensee must ensure that the Compliance Officer:

(a) is provided with such employees, premises, equipment, facilities and other resources; and

(b) has such access to the licensee's premises, systems, information and documentation,

as, in each case, the Compliance Officer might reasonably require for the fulfilment of the duties and tasks assigned pursuant to this condition.

2.3.25 Except to the extent provided for in paragraph 2.3.21, the licensee must ensure that the Compliance Officer is not engaged in the management or operation of the System Operator Functions, any Associate of the licensee or any Relevant Other Competitive Businesses.

- 2.3.26 The licensee must make available to the Compliance Officer details of any complaint or representation received by it from any person in respect of the conduct of the licensee in undertaking the specified business separation duties.
- 2.3.27 The duties and tasks of the Compliance Officer must include:
- (a) providing advice and information to the licensee (including individual directors of the licensee) and the Single Appointed Director for the purpose of ensuring the licensee's compliance with the specified business separation duties;
  - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the specified business separation duties and described in the Compliance Statement;
  - (c) advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to secure the required co-operation;
  - (d) investigating any complaint or representation made available to the Compliance Officer in accordance with paragraph 2.3.26;
  - (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;
  - (f) providing relevant advice and information to the licensee (including individual directors of the licensee) and the Compliance Committee established under paragraph 2.3.23, for the purpose of ensuring its implementation of:
    - (i) the practices, procedures and systems adopted in accordance with the Compliance Statement; and
    - (ii) any remedial action recommended in accordance with sub-paragraph (e);
  - (g) reporting to the Compliance Committee any instances which come to the compliance officer's attention, relating to a member of any of the managerial boards of the licensee, taking into account the interests of a business other than that in respect of which the board of which that Board has been established; and
  - (h) reporting annually to the Compliance Committee as to the Compliance Officer's activities in respect of the specified duties during the period covered by the annual report.
- 2.3.28 As soon as is reasonably practicable and in any event before the period of 90 days beginning with the date of issue of each annual report of the Compliance Officer, the licensee must produce, in a form approved by the Authority in accordance with paragraph 2.3.17, the Compliance Report:

- (a) as to its compliance with the specified business separation duties during the period since the last Compliance Report; and
  - (b) as to its implementation of the practices, procedures and systems adopted in accordance with the Compliance Statement.
- 2.3.29 The Compliance Report produced in accordance with paragraph 2.3.28 must in particular:
- (a) detail the activities of the Compliance Officer during the relevant period covered by the Compliance Report;
  - (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the Compliance Statement;
  - (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; and
  - (d) be accompanied by the Compliance Certificate, in a form approved by the Authority in accordance with paragraph 2.3.17, approved by a resolution of the Board of the licensee and signed in good faith by the sufficiently independent director chair of the Compliance Committee established under paragraph 2.3.23 pursuant to that resolution, on the licensee's compliance with the specified business separation duties.
- 2.3.30 The licensee must, as soon as reasonably practicable, following the approval of the Compliance Certificate by the Board of the licensee, and in any event before the end of the period of 120 beginning with the issue of each annual report of the Compliance Officer, submit to the Authority a copy of the Compliance Report and Compliance Certificate produced in accordance with paragraphs 2.3.28 and 2.3.29, and publish copies of each of them on its website.
- 2.3.31 The licensee must, if directed by the Authority, appoint an Independent Examiner for the purpose of providing a written report to the Authority:
- (a) reviewing the practices, procedures and systems which have been implemented to secure compliance with this condition;
  - (b) assessing the appropriateness of such practices, procedures and systems for securing compliance with the licensee's obligations under this condition; and

- (c) reporting on the licensee's compliance with the requirements of this condition.
- 2.3.32 The Independent Examiner's report must be provided to the Authority during the period of 3 Working Days of the date on which the licensee receives it from the Independent Examiner.
- 2.3.33 The Independent Examiner's reports must be commissioned at such intervals as the Authority may direct.

## **Special Condition 2.4 Electricity Market Reform**

### **Introduction**

- 2.4.1 The purpose of this condition is to set out the licensee's obligations as to its conduct in performing the EMR Functions.

### **Part A: Objectives**

- 2.4.2 The licensee must:
  - (a) in performing the EMR Relevant Duties, act in a manner best calculated to secure:
    - i. the efficient and effective carrying on of the EMR Functions; and
    - ii. compliance with the principles appearing to it to represent best regulatory practice; and
  - (b) in performing the EMR Functions, act in a manner best calculated to secure that none of the licensee's businesses, nor any business of any Associate of the licensee, obtains an unfair commercial advantage as a result of the licensee carrying out the EMR Functions, including through any arrangements the object or effect of which is that the exercise of the EMR Functions is unduly influenced in favour of those businesses.

### **Part B: Legal and functional separation of National Grid Electricity System Operator Limited and Relevant Other Competitive Businesses**

- 2.4.3 Without prejudice to the licensee's obligations under Standard Condition B5 (Prohibition of cross-subsidies), Standard Condition B6 (Restriction on Activity and Financial Ring Fencing), Special Condition 2.6 (Prohibited Activities and Conduct of the Transmission Business) and Special Condition 2.3 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions), the licensee must at all times conduct its activities, including carrying out the EMR Functions, separately from the Relevant Other Competitive Businesses; but nothing in this Part prevents the licensee from complying with any Section E (offshore transmission owner of last resort) Direction made pursuant to Standard Condition B18 (Offshore Transmission Owner of Last Resort).

2.4.4 Without prejudice to the generality of paragraph 2.4.3, in order to comply with that paragraph the licensee must in particular ensure that at a minimum:

- (a) the Relevant Other Competitive Businesses are conducted entirely by corporate entities which are separate from that of the licensee, and the licensee does not, directly or indirectly, hold any shares or other investments:
  - i. in any corporate entity which conducts any of the Relevant Other Competitive Businesses or which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or any of the assets used in or dedicated to any of the Relevant Other Competitive Businesses; or
  - ii. which give the holder an entitlement to vote at the general meetings of any of the corporate entities which conduct the Relevant Other Competitive Business or in any company which exercises or otherwise has control of any of the Relevant Other Competitive Businesses;
- (b) the licensee's accounts are maintained, and to the extent required by law audited and reported on, separately from those of any corporate entity which conducts Relevant Other Competitive Business;
- (c) persons engaged in, or in respect of, the management or operation of the licensee (up to and including the members of the senior management team reporting to the licensee's board of directors) are not simultaneously engaged either full or part time in respect of any Relevant Other Competitive Business or any corporate entity which conducts Relevant Other Competitive Business, other than in the provision of Shared Services provided by the licensee to its Associates and the provision of services which constitute de minimis business (as defined in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing)) to the extent that:
  - i. the provision of those services by the licensee complies with the requirements of Standard Conditions B5 (Prohibition of cross-subsidies), B6 (Restriction on Activity and Financial Ring Fencing) and B9 (Indebtedness); and
  - ii. except where the Authority consents or directs, persons engaged in, or engaged in respect of, the management or operation of the EMR Functions are not simultaneously engaged in or in respect of a de minimis business as defined in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing);
- (d) arrangements are in place which are effective in restricting access by persons engaged in or in respect of the management or operation of any of the Relevant Other Competitive Businesses to any part of any premises which is occupied by persons engaged in, or in respect of, the management or operation of the licensee including persons engaged in the EMR Functions;

- (e) the systems for the recording, processing or storage of Confidential EMR Information used by persons engaged in or in respect of, the management or operation of the licensee's activities (including carrying out the EMR Functions) cannot be accessed by persons engaged in, or engaged in respect of, the management or operation of the Relevant Other Competitive Businesses; and
- (f) the licensee establishes and maintains in force a code of conduct governing the disclosure of Confidential EMR Information by persons carrying out EMR Functions.

### **Part C: Establishment of the EMR Data Handling Team and the EMR Administrative Team**

- 2.4.5 Before the end of the period of 7 days beginning with the date on which this condition comes into effect, the licensee must establish an EMR Data Handling Team and must thereafter operate, supervise and manage the EMR Data Handling Team in a manner compliant with this condition.
- 2.4.6 Without prejudice to the generality of paragraph 2.4.5, in order to comply with that paragraph the licensee must in particular ensure that at a minimum:
  - (a) subject to paragraphs 2.4.7, 2.4.17 and 2.4.18, the EMR Data Handling Team, in presenting Confidential EMR Delivery Plan Information to a person who is not a member of the EMR Data Handling Team, uses reasonable endeavours to ensure that it is not reasonably practicable for such a person to identify the generation set which is the subject of that Confidential EMR Delivery Plan Information, or the owner or operator of that generation set;
  - (b) each member of the EMR Data Handling Team:
    - i. signs a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR Compliance Statement pursuant to paragraph 2.4.23(b)(ii); and
    - ii. complies with a policy set out in the EMR Compliance Statement governing the transfer of employees into and out of the carrying out of the EMR Functions; and
  - (c) the EMR Data Handling team is supervised and managed by a manager responsible for the control of the Confidential EMR Delivery Plan Information disclosed to persons carrying out the EMR Data Handling Functions, and for ensuring that the EMR Data Handling Team members comply with the obligations in this paragraph.
- 2.4.7 Paragraph 2.4.6(a) does not apply to the disclosure of Confidential EMR Delivery Plan Information by the EMR Data Handling Team to the EMR Administrative Team where such disclosure is necessary in order to enable the licensee to perform:



- (a) its EMR Function under regulation 23(2) of the Electricity Capacity Regulations 2014 of advising the Secretary of State on whether to adjust the demand curve for a capacity auction; or
  - (b) other EMR Functions in relation to which the Authority has given its prior written consent.
- 2.4.8 Subject to paragraphs 2.4.17 and 2.4.18 where Confidential EMR Delivery Plan Information is disclosed to the EMR Administrative Team under paragraph 2.4.7, the licensee must ensure that the EMR Administrative Team does not disclose that information to a person who is not a member of the EMR Administrative Team or the EMR Data Handling Team without having used reasonable endeavours to ensure that it is not reasonably practicable for such a person to identify the generation set which is the subject of that Confidential EMR Delivery Plan Information, or the owner or operator of that generation set.
- 2.4.9 The licensee must maintain an EMR Administrative Team and thereafter operate, supervise and manage the EMR Administrative Team in a manner compliant with this condition.
- 2.4.10 The licensee must ensure that:
  - (a) the EMR Administrative Team is responsible for carrying out the EMR Administrative Functions; and
  - (b) subject to paragraphs 2.4.11, 2.4.17 and 2.4.18, in presenting Confidential EMR Administrative Information to a person who is not a member of the EMR Administrative Team, the EMR Administrative Team uses reasonable endeavours to ensure that it is not reasonably practicable for such a person to identify the generation set which is the subject of that Confidential EMR Administrative Information, or the owner or operator of that generation set.
- 2.4.11 Paragraph 2.4.10(b) does not apply to the disclosure of Confidential EMR Administrative Information by the EMR Administrative Team to the EMR Data Handling Team where such disclosure is necessary in order to enable the licensee to perform:
  - (a) its EMR Functions under Part 3 (Electricity capacity reports) of the Electricity Capacity Regulations 2014 of preparing, amending and updating an annual capacity report; or
  - (b) other EMR Functions in relation to which the Authority has given its prior written consent.
- 2.4.12 Subject to paragraphs 2.4.17 and 2.4.18, where Confidential EMR Administrative Information is disclosed to the EMR Data Handling Team under paragraph 2.4.11, the licensee must ensure that the EMR Data Handling Team does not disclose that information to a person who is not a member of the EMR Data Handling Team or the EMR Administrative Team without having used reasonable endeavours to ensure that it is not reasonably practicable for such a



person to identify the generation set which is the subject of that Confidential EMR Administrative Information, or the owner or operator of that generation set.

- 2.4.13 The licensee must ensure that each member of the EMR Administrative Team:
- (a) signs a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR Compliance Statement pursuant to paragraph 2.4.23(c)(ii);
  - (b) is not, while a member of the EMR Administrative Team, simultaneously engaged in, or in respect of, any activity of the licensee other than:
    - i. the performance of EMR Administrative Functions; or
    - ii. providing assistance to the EMR Data Handling Team to the extent necessary to enable the licensee to perform its EMR Functions where Confidential EMR Administrative Information has been disclosed to the EMR Data Handling Team under paragraph 2.4.11; and
  - (c) is, for periods of time agreed by the Authority and specified in the EMR Compliance Statement:
    - i. assigned to the EMR Administrative Team for a minimum posting period; and
    - ii. prohibited from engaging in, or in respect of, the management or operation of a Relevant Other Competitive Business at the conclusion of that member's posting.
- 2.4.14 For the avoidance of doubt, paragraph 2.4.13 does not prevent members of the EMR Administrative Team from engaging in the licensee's recruitment, training and further education activities and other activities:
- (a) specified in the EMR Compliance Statement; or
  - (b) to which the Authority has given its prior written consent.
- 2.4.15 The licensee must ensure that the EMR Administrative Team is accommodated in premises or parts of premises where arrangements are in place which are effective in restricting access by persons who are not members of the EMR Administrative Team.

#### **Part D: Restrictions on the use of Confidential EMR Administrative Information**

- 2.4.16 The licensee must ensure that it and its employees, agents, contractors and advisers:
- (a) treat and keep all Confidential EMR Information as confidential;
  - (b) do not disclose any Confidential EMR Information directly or indirectly disclosed to any other person other than as provided in paragraphs 2.4.17 and 2.4.18;
  - (c) do not use any Confidential EMR Information for any purpose other than:

- i. performing the EMR Functions;
- ii. carrying on the Balancing Services Activity;
- iii. a purpose for which the licensee has obtained prior written consent from the Authority or which is specified in the EMR Compliance Statement; or
- iv. a purpose permitted by regulation 65 of the Electricity Capacity Regulations 2014;

provided that Confidential EMR Administrative Information and Confidential EMR Delivery Plan Information is not be used for the purposes set out in paragraphs (ii) and (iii) unless reasonable endeavours have been taken pursuant to paragraphs 2.4.6(a), 2.4.8, 2.4.10(b) or 2.4.12 to protect from disclosure the source of such information; and

- (d) without prejudice to sub-paragraph (c), ensure that Confidential EMR Information is not disclosed to or solicited or used by the Transmission Business, any other business of the licensee or any Associate of the licensee which carries on any Relevant Other Competitive Business.

2.4.17 The licensee may disclose Confidential EMR Information:

- (a) where required by, any requirement of law or regulation or by the rules of any governmental or other regulatory authority having jurisdiction over the licensee;
- (b) where authorised in advance in writing by the Authority;
- (c) to the extent that the person to whom such Confidential EMR Information relates has consented to such disclosure;
- (d) to another person exercising functions conferred by or under Chapters 2, 3 and 4 of Part 2 of the Energy Act to the extent that such disclosure is required to enable that person to carry out those functions; or
- (e) where such disclosure is permitted by regulation 65 of the Electricity Capacity Regulations 2014.

2.4.18 The licensee may disclose Confidential EMR Information to:

- (a) its employees, agents, contractors and advisers, other than persons referred to in paragraph 2.4.23(a)(iv), to the extent that such disclosure is required to enable the licensee to perform its EMR Functions; or
- (b) persons engaged in, or in respect of, Shared Services, to the extent necessary to enable them to perform their respective functions; and in each case the licensee must ensure that:
  - i. the recipients of such Confidential EMR Information only hold the information for such period as is necessary to enable the recipients to perform their respective functions; and

- ii. prior to disclosure, the recipients of such Confidential EMR Information enter into confidentiality obligations in respect of such information in a form specified in the EMR Compliance Statement.

## **Part E: EMR Compliance Statement**

- 2.4.19 The licensee must, unless the Authority otherwise consents, at all times have in place and comply with an EMR Compliance Statement approved by the Authority.
- 2.4.20 Where the Authority does not indicate otherwise during the period of 60 days beginning with the date of receipt of the EMR Compliance Statement, or any revision, the EMR Compliance Statement will be treated as not being approved by the Authority.
- 2.4.21 The licensee must, at least once in every 12 months or at such other intervals as the Authority may direct, review the description set out in the EMR Compliance Statement and the statement as necessary to ensure that the description set out in it continues to be complete and accurate in all material respects.
- 2.4.22 The licensee must send a copy of the EMR Compliance Statement, and each revision of it as and when it is made, to the Authority and the licensee must publish a copy of the statement and each revision on its website as soon as is reasonably practicable, once approval from the Authority has been received.
- 2.4.23 The EMR Compliance Statement must in particular (but without prejudice to the generality of paragraphs 2.4.19 and 2.4.21) set out how the licensee will ensure:
  - (a) the confidentiality of Confidential EMR Information, by means which must include:
    - i. compliance with the requirements set out in paragraph 2.4.16;
    - ii. requiring adherence to the code of conduct referred to in paragraph 2.4.4(f), by those subject to it, as part of the licensee's disciplinary policies;
    - iii. establishing and maintaining a training programme designed to ensure that employees, agents, contractors and advisers receive initial and continuing training;
    - iv. ensuring that the persons engaged in the business of any Associate or business of the licensee other than performing the EMR Functions do not have access to any parts of systems for the recording, processing or storage of Confidential EMR Information;
    - v. ensuring that:
      - (a) any parts of systems used for the recording, processing or storage of:

- i. Confidential EMR Delivery Plan Information can be accessed only by the EMR Data Handling Team;
  - ii. Confidential EMR Administrative Information can be accessed only by the EMR Administrative Team; and
- (b) neither Confidential EMR Delivery Plan Information nor Confidential EMR Administrative Information can be accessed by any other persons:
  - vi. identifying the persons to whom Confidential EMR Information must never be disclosed by reference to the functions of those persons; and
  - vii. maintaining a list of persons to whom Confidential EMR Information has been disclosed or who have access to Confidential EMR Information (whether on a regular or an occasional basis), a copy of which the licensee must provide on request to the Authority; (b) the confidentiality of Confidential EMR Delivery Plan Information, by means which must include:
    - i. compliance with the requirements set out in paragraph 2.4.16;
    - ii. establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in paragraph 2.4.6(b)(i);
    - iii. establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Delivery Plan Information;
    - iv. maintaining the EMR Data Handling Team in accordance with paragraphs 2.4.6(b)(ii) and 2.4.6(c);
    - v. establishing and maintaining information system security policies; and
    - vi. establishing and maintaining document management and security policies; and
- (c) the confidentiality of Confidential EMR Administrative Information by means which must include:
  - i. compliance with the requirements set out in paragraph 2.4.6;
  - ii. establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in 2.4.13(a);
  - iii. maintaining the EMR Administrative Team in accordance with paragraphs 2.4.9.(b), 2.4.9.(c) and 2.4.15;
  - iv. establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Administrative Information;
  - v. establishing and maintaining information system security policies; and
  - vi. establishing and maintaining document management and security policies.

## **Part F: Appointment of EMR compliance officer and EMR compliance reporting**

- 2.4.24 The licensee must ensure, following consultation with the Authority, that a EMR Compliance Officer is appointed for the purpose of facilitating compliance by the licensee with the EMR Relevant Duties (and the person appointed may also hold other compliance officer roles for the licensee.
- 2.4.25 The licensee must appoint a Single Responsible Director for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the EMR Compliance Officer set out in paragraph 2.4.29 and the licensee's compliance with its EMR Relevant Duties; and the Single Responsible Director must report to the board of the licensee in relation to the obligations set out in this condition.
- 2.4.26 The licensee must ensure that the EMR Compliance Officer:
- (a) is provided with such employees, premises, equipment, facilities and other resources; and
  - (b) has such access to the licensee's premises, systems, information and documentation:  
as, in each case, the EMR Compliance Officer might reasonably expect to require for the fulfilment of the duties and tasks assigned to the EMR Compliance Officer pursuant to this condition.
- 2.4.27 Except to the extent provided for in paragraph 2.2.24, the licensee must ensure that the EMR Compliance Officer is not engaged in the management or operation of the Transmission Business, any Associate, any other business of the licensee or any Relevant Other Competitive Businesses.
- 2.4.28 The licensee must make available to the EMR Compliance Officer details of any complaint or representation received by it from any person in respect of a matter arising under or by virtue of the EMR Relevant Duties.
- 2.4.29 The duties and tasks of the EMR Compliance Officer must include:
- (a) providing advice and information to the licensee (including individual directors of the licensee) and the Single Responsible Director for the purpose of ensuring the licensee's compliance with the EMR Relevant Duties;
  - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the EMR Relevant Duties and described in the EMR Compliance Statement;
  - (c) advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to secure the required co-operation;
  - (d) investigating any complaint or representation made available to the EMR Compliance Officer in accordance with paragraph 2.4.28;

- (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable; and
  - (f) reporting annually to the Single Responsible Director as to the EMR Compliance Officer's activities in respect of the EMR Relevant Duties during the period covered by the report.
- 2.4.30 As soon as is reasonably practicable and in any event before the end of the period of 90 days beginning with the date of the annual report of the EMR Compliance Officer, the licensee must produce a report in a form approved by the Authority:
- (a) as to its compliance with the EMR Relevant Duties during the period since the last report; and
  - (b) as to its implementation of the practices, procedures and systems adopted in accordance with the EMR Compliance Statement.
- 2.4.31 The report produced in accordance with paragraph 2.4.30 must in particular:
- (a) detail the activities of the EMR Compliance Officer during the period covered by the report;
  - (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the EMR Compliance Statement;
  - (c) set out the details of any investigations conducted by the EMR 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; and;
  - (d) be accompanied by a compliance certificate in a form approved by the Authority, approved by a resolution of the Board of the licensee and signed in good faith by the Single Responsible Director pursuant to that resolution, on the licensee's compliance with the EMR Relevant Duties and certifying that, to the best of that director's knowledge, information and belief having made due and careful enquiry, the report of the EMR Compliance Officer fairly represents the licensee's compliance with the EMR Relevant Duties.
- 2.4.32 The licensee must, as soon as is reasonably practicable and in any event before the end of the period of 14 days beginning with the date on which the compliance certificate is approved by a resolution of the Board of the licensee as required by paragraph 2.4.31(d), submit to the Authority a copy of the report and compliance certificate produced in accordance with paragraph 2.4.31, and publish copies of each of them on its website.

- 2.4.33 The licensee must, if directed by the Authority, appoint an Independent Examiner for the purpose of providing a written report to the Authority:
- (a) reviewing the practices, procedures and systems which have been implemented to secure compliance with this condition;
  - (b) assessing the appropriateness of such practices, procedures and systems for securing compliance with the licensee's obligations under this condition; and
  - (c) reporting on the licensee's compliance with the requirements of this condition.
- 2.4.34 The Independent Examiner's report must be provided to the Authority during the period of 3 Working Days beginning with the date on which the licensee receives it from the Independent Examiner.
- 2.4.35 The Independent Examiner's reports must be commissioned at such intervals as the Authority directs.

## **Part G: General**

- 2.4.36 If the licensee ceases to perform the EMR Functions:
- (a) paragraphs 2.4.16 and 2.4.17 will continue in force to the extent required to protect Confidential EMR Information in accordance with the obligations set out in this condition; and
  - (b) the other obligations under this condition will remain in force for such time and on such terms as the Authority directs.

## **Special Condition 2.5 Network Access Policy**

### **Introduction**

- 2.5.1 The purpose of this condition is to set out the requirements upon the licensee to facilitate the development of, and to act consistently with, the Transmission Owners' Network Access Policy (NAP).
- 2.5.2 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 the licence or any code, particularly in relation to the licensee's compliance with Standard Condition B12 (System Operator – Transmission Owner Code) and Standard Condition C17 (Transmission system security standard and quality of service); or
  - (c) the STC.



## **Part A: Licensee's obligations in relation to the NAP**

- 2.5.3 The licensee must incorporate the Transmission Owners' NAP into its planning and operations within its licensed activities; and it must act consistently with the NAP, subject to the need to ensure the safe and secure operation of all or any part of the NETS.
- 2.5.4 The licensee must use reasonable endeavours to assist Transmission Owners in meeting their obligations for meeting the essential requirements of the NAP and amending the NAP.

## **Special Condition 2.6 Prohibited Activities and Conduct of the Transmission Business**

### **Introduction**

- 2.6.1 The purpose of this condition is to set out the prohibitions for the licensee and any subsidiary of the licensee and the conduct of the licensee in respect of holding a Transmission Licence with Section D (Transmission Owner Standard Conditions) or Section E (Offshore Transmission Owner Standard Conditions) in effect.

### **Part A: Prohibited Activities**

- 2.6.2 Except with the consent of the Authority, the licensee must not, and must ensure that any subsidiary of the licensee will not, on its own account (or that of the licensee or of any subsidiary of the licensee as the case may be), hold, or seek to hold, a Transmission Licence with Section D (Transmission Owner Standard Conditions) or Section E (Offshore Transmission Owner Standard Conditions) in effect.

### **Part B: Conduct of the Transmission Business**

- 2.6.3 The licensee must conduct its Transmission Business in the manner best calculated to secure that none of the following obtains an unfair commercial advantage including, in particular, any advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its transmission business:
- (a) the licensee;
  - (b) any affiliate or related undertaking of the licensee including, for the avoidance of doubt:
    - i. any affiliate or related undertaking that intends to participate in a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted; or



- ii. any affiliate or related undertaking participating in a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted;

that is a subsidiary of, or is controlled by an ultimate controller of, the licensee;

(c) any user of the National Electricity Transmission System; and

(d) any other Transmission Licensee.

## **Special Condition 2.7 Prohibition on engaging in preferential or discriminatory behaviour**

### **Introduction**

2.7.1 The purpose of this condition is to prevent the licensee from unduly preferring, or discriminating between, Transmission Licensees.

### **Part A: Prohibition on engaging in preferential or discriminatory behaviour**

2.7.2 The licensee must not, in meeting its obligations under this licence, unduly discriminate as between other Transmission Licensees, or unduly prefer any other Transmission Licensee, or unduly prefer itself over any other Transmission Licensee.

2.7.3 On direction by the Authority, the licensee must keep and maintain such records concerning its compliance with this condition as are in the opinion of the Authority sufficient to enable the Authority to assess whether the licensee is complying with this condition and as are specified in any such direction; and the licensee must provide to the Authority such records in such manner and at such times as the Authority may require.

## **Special Condition 2.8 Allowances in respect of a Security Period**

### **Introduction**

2.8.1 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**

2.8.2 At any time during a Security Period, the licensee may give notice in writing to the Authority suspending, with effect from the date the notice is received by the Authority, application of the Relevant Special Conditions as may be specified in the notice, for the remaining duration of the Security Period.

2.8.3 At any time during a Security Period, the Authority may by direction (having regard to its duties):

- (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 provision of Transmission Network Services an amount estimated as being equal to the licensee's Allowed Security Costs attributable to the provision of Transmission Network Services during such period.

- 2.8.4 Subject to paragraphs 2.8.5 and 2.8.7, the licensee is entitled in any Relevant Year to recover an aggregate amount equal to its Allowed Security Costs attributable to the provision of Transmission Network Services 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 provision of Transmission Network Services.
- 2.8.5 Paragraph 2.8.4 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 2.8.3.
- 2.8.6 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 2.8.4 on account of the licensee's Allowed Security Costs; and
  - (c) the basis of and calculations underlying the increases in charges made by the licensee in its provision of Transmission Network Services together with an explanation of the basis of attribution of Allowed Security Costs to the provision of Transmission Network Services.
- 2.8.7 Where the Authority is satisfied that the licensee has recovered amounts in excess of the Allowed Security Costs attributable to the provision of Transmission Network Services, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers in receipt of Transmission Network Services for the excess amounts charged to them, and the licensee must comply with any directions so issued provided that if the excess amounts relate to Allowed Security Costs paid to any authorised electricity operator, the licensee is not obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator.

- 2.8.8 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 3.1 (Transmission Network Revenue Restriction).

## **Special Condition 2.9 Services treated as Directly Remunerated Services**

### **Introduction**

- 2.9.1 The purpose of this condition is to set out the basis on which services provided by the licensee will be treated as Directly Remunerated Services under the special conditions.
- 2.9.2 The effect of this condition is that revenue derived by the licensee from the provision of Directly Remunerated Services is excluded from the calculation of the SO Internal Allowed Revenue.
- 2.9.3 This condition also explains the process that the Authority will follow when directing that services provided by the licensee should be treated, or should not be treated, as Directly Remunerated Services.

### **Part A: Licensee's obligation to exclude Directly Remunerated Services**

- 2.9.4 The licensee must exclude revenue derived from Directly Remunerated Services from SO Internal Allowed Revenue.
- 2.9.5 Directly Remunerated Services are:
- (a) services that comply with the general principle set out in Part B; or
  - (b) the services listed in Part C to the extent that they comply with the general principle in Part B; or
  - (c) services that the Authority directs to be treated as Directly Remunerated Services to the extent that such direction will comply with the general principle in Part B.
- 2.9.6 Services are not to be treated as Directly Remunerated Services if the Authority so directs to the extent that such direction will comply with the general principle in Part B.

### **Part B: Statement of general principle**

- 2.9.7 The general principle is that a service provided by the licensee as part of its Transmission Business Activities is to be treated as a Directly Remunerated Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 2.9.8.
- 2.9.8 The charges referred to in paragraph 2.9.7 are:

- (a) Transmission Network Charges, under the provisions of Special Condition 3.1 (Transmission Network Revenue Restriction);
- (b) internal balancing services activity charges, under the provisions of Special Condition 4.1 (System Operator Internal Revenue Restriction);
- (c) external balancing services activity charges, under the provisions of Special Condition 4.2 (Balancing Services Activity Revenue Restriction on External Costs); and
- (d) charges arising from any activity carried out under the provisions of Special Condition 3.3 (RIIO-1 Network Innovation Competition) and Special Condition 3.4 (Strategic Innovation Fund) which results in Returned Royalty Income for the licensee.

### **Part C: Categories of Directly Remunerated Services**

2.9.9 The descriptions of categories of Directly Remunerated Services set out at paragraph 2.9.10 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that may be set out in the RIGs issued by the Authority under Standard Condition B15 (Regulatory Instructions and Guidance) of this licence.

2.9.10 Directly Remunerated Services will include the following services:

DRS1. Connection services: This category consists of administration in relation to 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 National Electricity Transmission System (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 2.9.8).

DRS2. Diversionary works under an obligation: *(Not applicable to National Grid Electricity System Operator)*

DRS3. Works required by any alteration of premises: *(Not applicable)*

DRS4. Telecommunications and information technology infrastructure services: *(Not applicable)*

DRS5. Outage Changes: *(Not applicable)*

DRS6. Emergency Services: *(Not applicable)*

DRS7. PARCA Activities: *(Not applicable)*

DRS8. Independent System Operation: *(Not applicable)*

DRS9. Network Innovation Funding: *(Not applicable)*

DRS10. Value Added Services: *(Not applicable)*

DRS11. Top-up, standby, and enhanced system security: *(Not applicable)*

DRS12. Revenue protection services: *(Not applicable)*

DRS13. Metering Services: *(Not applicable)*

DRS14. Smart Meter Roll-out rechargeable services: *(Not applicable)*

DRS15. Miscellaneous: This category consists of the provision of any other service 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**

- 2.9.11 Before issuing a direction under Part A the Authority will consider the general principle in Part B.
- 2.9.12 Any direction that the Authority issues under Part A will set out the date on which the licensee must start or cease treating services as Directly Remunerated Services.

## **Special Condition 2.10 Disapplication of Relevant Special Conditions**

### **Introduction**

- 2.10.1 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: Procedure for making a Disapplication Request**

- 2.10.2 The licensee may serve a Disapplication Request on the Authority.
- 2.10.3 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 Disapplication Date that the licensee proposes, which must not be earlier than the appropriate date that is mentioned in Part C.

- 2.10.4 A Disapplication Request served under 2.10.3 may be served in respect of a specified geographical area.
- 2.10.5 The Authority may, within 28 days of a Disapplication Request, give notice to the licensee:
- (a) specifying further information or analysis that the Authority reasonably considers is required in order to fully assess the Disapplication Request; and
  - (b) requesting the licensee to provide that information or analysis.
- 2.10.6 The licensee may withdraw a Disapplication Request at any time.

**Part B: Date from which a disapplication may take effect**

- 2.10.7 Except where the Authority otherwise consents, a disapplication following the service of a Disapplication Request may take effect on a date that is not before the end of the period of 18 months beginning with the date on which the Disapplication Request is served on the Authority.
- 2.10.8 If paragraph 2.10.5 applies, a Disapplication Request will be treated as served when the further information or analysis is received by the Authority and, if in consequence the Disapplication Date set out in the Disapplication Request no longer complies with paragraph 2.10.7, the Disapplication Date will be treated as being the earliest date that would comply with that paragraph.

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

- 2.10.9 If the licensee has served on the Authority a Disapplication Request that complies with the requirements of Parts A and B, it may subsequently give the Authority a Disapplication Notice:
- (a) in the circumstances described in Part D; or
  - (b) in the circumstances described in Part E.
- 2.10.10 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 to under Part B.

**Part D: Termination without involvement of the Competition and Markets Authority**

- 2.10.11 The circumstance referred to in paragraph 2.10.9(a) are 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 Disapplication Notice in respect of the relevant Disapplication Request.

## **Part E: Termination after involvement of the Competition and Markets Authority**

2.10.12 The circumstances referred to in paragraph 2.10.9(b) are that the Authority has published a decision as described in paragraph 2.10.11(a) or 2.10.11(b) and:

- (a) the licensee has exercised its right to appeal to the Competition and Markets Authority against that decision of the Authority under section 11C of the Act;
- (b) the Competition and Markets Authority, 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 under section 11F(2)(c) of the Act; and
- (c) no more than 30 days have elapsed since the date on which the Competition and Markets Authority quashed the decision in the circumstances described in sub-paragraph (b)(i).

## **Special Condition 2.11 Digitalisation**

### **Introduction**

- 2.11.1 The purpose of this condition is to set out the licensee's obligations to:
- (a) have a Digitalisation Strategy;
  - (b) have a Digitalisation Action Plan;
  - (c) update its Digitalisation Strategy and its Digitalisation Action Plan;
  - (d) comply with the Digitalisation DSAP Guidance; and
  - (e) comply with Data Best Practice Guidance.
- 2.11.2 This condition also sets out the process the Authority will follow when issuing and amending DSAP Guidance and Data Best Practice Guidance.

### **Part A: Requirements of the Digitalisation Strategy**

- 2.11.3 The licensee must publish its Digitalisation Strategy on, or before, 31 March 2022.
- 2.11.4 The licensee must review the progress it has made against its Digitalisation Strategy, and update its Digitalisation Strategy, at intervals specified in the DSAP Guidance.
- 2.11.5 The licensee must:



- (a) publish its Digitalisation Strategy, and updates to its Digitalisation Strategy, on the licensee's website where they are readily accessible to the public;
- (b) maintain an archive of all published versions of its Digitalisation Strategy on the licensee's website where they are readily accessible to the public; and
- (c) notify the Authority of any updates to the Digitalisation Strategy.

## **Part B: Requirements of the Digitalisation Action Plan**

- 2.11.6 The licensee must publish its Digitalisation Action Plan on, or before, 30 June 2021.
- 2.11.7 The licensee must review the progress it has made against its Digitalisation Action Plan and update its Digitalisation Action Plan at the intervals specified in the DSAP Guidance.
- 2.11.8 The licensee must:
  - (a) publish its Digitalisation Action Plan, and updates to its Digitalisation Action Plan, on the licensee's website where they are readily accessible to the public;
  - (b) maintain an archive of all published versions of its Digitalisation Action Plan on the licensee's website where they are readily accessible to the public; and
  - (c) notify the Authority of any updates to the Digitalisation Action Plan.

## **Part C: DSAP Guidance**

- 2.11.9 The licensee must comply with the DSAP Guidance when:
  - (a) preparing and updating its Digitalisation Strategy; and
  - (b) preparing and updating its Digitalisation Action Plan.
- 2.11.10 The Authority will issue and amend DSAP Guidance by direction.
- 2.11.11 The Authority will publish DSAP Guidance on the Authority's Website.
- 2.11.12 The DSAP Guidance will make provision about:
  - (a) how the licensee should work towards Digitalisation;
  - (b) how the licensee should set out in its Digitalisation Strategy and Digitalisation Action Plan how it intends to use Energy System Data to generate benefits for consumers and stakeholders and the specific actions it will take to achieve that outcome;
  - (c) the form and content of the Digitalisation Strategy and the Digitalisation Action Plan, including:
    - i. the structure, content and level of detail of each;
    - ii. the types of activities that should be covered in each; and
    - iii. any required information associated with those activities; and

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- (d) the engagement the licensee is required to undertake with stakeholders to help inform the development of its Digitalisation Strategy and its Digitalisation Action Plan.

#### **Part D: Requirement to employ Data Best Practice**

- 2.11.13 The licensee must, when conducting work that involves working with or making decisions about the use of Energy System Data, use best endeavours to act in accordance with Data Best Practice Guidance.
- 2.11.14 The Authority will issue and amend Data Best Practice Guidance by direction.
- 2.11.15 The Authority will publish Data Best Practice Guidance on the Authority's website.
- 2.11.16 Data Best Practice Guidance will make provision about how the Authority expects the licensee to comply with Data Best Practice to generate benefits for consumers and stakeholders, including but not limited to ensuring services that involve Energy System Data are designed to meet the needs of consumers and those who directly use the services.

#### **Part E: Process for issuing and amending guidance**

- 2.11.17 Before issuing DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the proposed guidance;
  - (b) the date on which the Authority intends the guidance to come into effect; and
  - (c) a period during which representations may be made on the content of the guidance, which will not be less than 28 days.
- 2.11.18 Before amending DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the amended guidance;
  - (b) the date on which the Authority intends the amended guidance to come into effect;
  - (c) the reasons for the amendments to the guidance; and
  - (d) a period during which representations may be made on the amendments to the guidance, which will not be less than 28 days.

### **Special Condition 2.12 Tax Reconciliation assurance statement**

#### **Part A: Introduction**

- 2.12.1 This condition requires the licensee to submit to the Authority an annual assurance statement in relation to the Tax Reconciliation template and sets out the form of that statement.

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## Part B: Assurance Statement

- 2.12.2 The licensee must by 31 July of each Regulatory Year starting from 1 April 2023, submit to the Authority an assurance statement, relating to the Regulatory Year *t-2* that:
- (a) has been approved by a resolution of the licensee's Board of directors;
  - (b) is signed by a director of the licensee pursuant to the resolution in subparagraph (a); and
  - (c) is set out in the form prescribed in paragraph 2.12.3, or where paragraph 2.12.4 applies in the form prescribed in paragraph 2.12.5.
- 2.12.3 The prescribed form for the assurance statement is as follows:
- "In accordance with the requirements of paragraph 2.12.2 of Special Condition 2.12 (Tax Reconciliation assurance statement), the Directors of [*licensee*] ("the licensee") hereby certify that for the Regulatory Year [*Regulatory Year t-2*], in their opinion:
- (a) the adjusted notional tax allowance as shown in the Tax Reconciliation template represents a fair interpretation of the licensee's adjusted actual tax liability as shown in the licensee's Company Tax Return (CT600);
  - (b) the Tax Reconciliation has been submitted to the Office of Gas and Electricity Markets along with a copy of:
    - i. the licensee's most recent CT600 as submitted to Her Majesty's Revenue and Customs;
    - ii. the licensee's most recently submitted Senior Accounting Officer (SAO2) certificate as per (b)i; and
    - iii. the licensee's published Tax Strategy;
  - (c) where appropriate, further information has also been provided to support and explain reconciling items in accordance with the PCFM Guidance;
  - (d) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary; and
  - (e) reconciling differences have been appropriately explained and any remaining, unexplained difference is considered immaterial in aggregate."
- 2.12.4 Where the licensee anticipates a material, unexplained variance to arise in the Tax Reconciliation as described in the ESO Price Control Financial Handbook, the prescribed form for the assurance statement is set out in paragraph 2.12.5.
- 2.12.5 "In accordance with the requirements of paragraph 2.12.2 of Special Condition 2.12 (Tax Reconciliation Assurance Statement), the Directors of [*licensee*] ("the licensee") hereby certify that for the Regulatory Year [*Regulatory Year t-2*], in their opinion:

- (a) the adjusted notional tax allowance as shown in the Tax Reconciliation template does not represent a fair interpretation of the licensee's adjusted actual tax liability as shown in the licensee's Company Tax Return (CT600);
- (b) the Tax Reconciliation has been submitted to the Office of Gas and Electricity Markets along with a copy of:
  - i. the licensee's most recent CT600 as submitted to Her Majesty's Revenue and Customs;
  - ii. the licensee's most recently submitted Senior Accounting Officer (SAO2) certificate as per (b)i; and
  - iii. the licensee's published Tax Strategy;
- (c) where appropriate, further information has also been provided to support and explain reconciling items in accordance with the PCFM Guidance;
- (d) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary; and
- (e) a notification has been given in writing to the Authority under Chapter 5 of the ESO Price Control Financial Handbook.

## **Special Condition 2.13 SO-TO Optimisation Governance**

- 2.13.1 The purpose of this condition is to set out the requirements upon the licensee to act consistently with the SO-TO Optimisation Governance.
- 2.13.2 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 the licence or any code, particularly in relation to the licensee's compliance with Standard Condition B12 (System Operator – Transmission Owner Code) and Standard Condition C17 (Transmission system security standard and quality of service); or
  - (c) the System Operator - Transmission Owner Code ("the STC").

### **Part A: SO-TO Optimisation Governance**

- 2.13.3 The licensee must comply with the SO-TO Optimisation Governance.
- 2.13.4 The Authority will issue and amend the SO-TO Optimisation Governance by direction.
- 2.13.5 The Authority will publish the SO-TO Optimisation Governance on the Authority's Website.
- 2.13.6 The SO-TO Optimisation Governance document will make provision about the governance and administration of the SO-TO Optimisation Governance document, including:

- (a) the definition of 'SO-TO Optimisation Solutions';
  - (b) the methodology the licensee will use when providing the Authority with forecasts in relation to SO-TO Optimisation Solutions; and
  - (c) the reporting obligations in respect of SO-TO Optimisation output delivery incentive.
- 2.13.7 Before directing that SO-TO Optimisation Governance comes into effect the Authority will publish on the Authority's Website:
- (a) the text of the proposed SO-TO Optimisation Governance;
  - (b) the date on which the Authority intends the SO-TO Optimisation Governance to come into effect; and
  - (c) a period during which representations may be made on the amendments to the SO-TO Optimisation Governance, which will not be less than 28 days.
- 2.13.8 Before directing an amendment to the SO-TO Optimisation Governance, the Authority will publish on the Authority's Website:
- (a) the text of the amended SO-TO Optimisation Governance;
  - (b) the date on which the Authority intends the amended SO-TO Optimisation Governance to come into effect;
  - (c) the reasons for the amendment to the SO-TO Optimisation Governance; and
  - (d) a period during which representations may be made on the amendment to the SO-TO Optimisation Governance, which will not be less than 28 days.

## **Part B: SO-TO Optimisation Report**

- 2.13.9 The licensee must provide a SO-TO Optimisation Report in accordance with the SO-TO Optimisation Governance.
- 2.13.10 The licensee must provide this report to the Authority on or before 1 April 2023.

## **Special Condition 2.14 Remuneration Policy and Expenses Policy**

### **Introduction**

- 2.14.1 The purpose of this condition is to ensure that the licensee has in place and complies with:
- (a) a Remuneration Policy (as described in Part B of this condition); and
  - (b) an Expenses Policy (as described in Part C of this condition),
- that has been approved by the Authority.
- 2.14.2 The effect of this condition is to ensure that the licensee prepares and submits a Remuneration Policy and an Expenses Policy to the Authority for approval, and then complies with those policies.

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.  
National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 19 October 2021

## **Part A: Submitting policies for approval**

- 2.14.3 The licensee must prepare and submit to the Authority a Remuneration Policy and an Expenses Policy by 30 April 2021, or such later date with the consent of the Authority.
- 2.14.4 On receipt of the policies provided for in paragraph 2.14.3, or any revisions of them, as provided for in paragraph 2.14.5(b), the Authority will:
- (a) approve each policy (or revision) and notify the licensee of each approval; or
  - (b) give a direction to the licensee that a document requires further development and the date by which the licensee is required to submit a revision to the Authority for approval.
- 2.14.5 Following the Authority's approval of the policies provided for in paragraph 2.14.3, the licensee must:
- (a) unless the Authority otherwise consents or directs, at all times comply with the policies;
  - (b) at least every 12 months, or at such other intervals as the Authority may direct, review each of the policies and revise them as necessary; and
  - (c) submit any revisions to the Authority.
- 2.14.6 Revisions will only become effective once the Authority has approved them, in accordance with paragraph 2.14.4.

## **Part B: Remuneration Policy**

- 2.14.7 The Remuneration Policy must describe the principles, practices, procedures and systems that the licensee must follow when remunerating its employees, and the policy shall include the following:
- (a) the principles the licensee follows when setting remuneration for its employees (for management and the wider workforce);
  - (b) the approach the licensee takes to annual increases in remuneration for its employees (for management and the wider workforce);
  - (c) the approach the licensee takes to avoiding any differences in remuneration between protected characteristics under the Equality Act 2010;
  - (d) the principles and methodologies for awarding performance related remuneration;
  - (e) the principles and methodologies for awarding any other employee benefits; and
  - (f) the remuneration ratios between senior management and the wider workforce.

## **Part C: Expenses Policy**

- 2.14.8 The Expenses Policy must describe the principles, practices, procedures and systems that the licensee must follow in relation to the use of, and approval of, expenses by employees (management and the wider workforce) when carrying out business on behalf of the licensee, and the policy shall include the following:
- (a) expenses for travel by air, sea, rail, taxi or any other form of transport;
  - (b) subsistence expenses (for food and drink); and
  - (c) expenses for staying overnight.

# Chapter 3: Transmission Revenue Restriction

## 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:

$$TO_t = PT_t + DIS_t + TS_t + NICF_t + SIFF_t + LAR_t + ADJ_t + K_t$$

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 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);
$ADJ_t$	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 3.2 Pass-through items ( $PT_t$ )

### Introduction

- 3.2.1 The purpose of this condition is to provide for the calculation of the term  $PT_t$  (the allowed pass-through term). This contributes to the calculation of Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).
- 3.2.2 The effect of this condition is to ensure that the licensee's Maximum Revenue reflects certain costs that can be passed through to users.



## Part A: Formula for calculating the allowed pass-through term (PT<sub>t</sub>)

3.2.3 The value of PT<sub>t</sub> is derived in accordance with the following formula:

$$PT_t = LF_t + ITC_t + Term_t + TSP_t + TSH_t + TNGET_t + TOFTO_t + OFET_t + TICF_t + TICP_t + BD_t$$

where:

<i>LF<sub>t</sub></i>	means the <a href="#">net</a> payments made by the licensee under paragraph 3 of Standard Condition A4 (Payments by the Licensee to the Authority);
<i>ITC<sub>t</sub></i>	means the amount equal to invoices in respect of participation in the inter-transmission system operator compensation mechanism arising from the participation by Great Britain in the inter-transmission system operator compensation mechanism as provided for in Article 49 of the Electricity Regulation (EU) 2019/943;
<i>Term<sub>t</sub></i>	means the adjustment equal to the income received (net of any amounts treated as capital contribution) by the licensee 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;
<i>TSP<sub>t</sub></i>	means the amount notified to the licensee by SP Transmission Ltd or any successor company pursuant to its electricity transmission licence;
<i>TSH<sub>t</sub></i>	means the amount notified to the licensee by Scottish Hydro Electric Transmission Plc or any successor company pursuant to its electricity transmission licence;
<i>TNGET<sub>t</sub></i>	means the amount notified to the licensee by National Grid Electricity Transmission Plc or any successor pursuant to its electricity transmission licence;
<i>TOFTO<sub>t</sub></i>	means the total of the amounts notified to the licensee by each Offshore Transmission Owner pursuant to their electricity transmission licences;
<i>OFET<sub>t</sub></i>	means the amount equal to the payments made, in total, by the licensee to the electricity distributors with respect to charges for use of electricity distribution systems by offshore generating stations connected to those systems via Embedded Transmission Systems;
<i>TICF<sub>t</sub></i>	means the total of the amounts notified to the licensee by each relevant Interconnector Owner pursuant to their electricity interconnector licences;
<i>TICP<sub>t</sub></i>	means the total of the amounts notified to the licensee by each relevant electricity interconnector licensee in relation to Regulatory Year t pursuant to the special conditions in their respective electricity interconnector licences; and
<i>BD<sub>t</sub></i>	means the value of bad debt and is derived in accordance with Part B.

## Part B: Formula for calculating the Bad Debt term (BD<sub>t</sub>)

3.2.4 The value of the BD<sub>t</sub> term is derived in accordance with the following formula:

$$BD_t = BDA_t - RBD_t$$

where:

$BDA_t$  means the aggregate value of Bad Debt the licensee has incurred or expects to incur, inclusive of RIIO-1 Bad Debt and COVID-19 Bad Debt, with respect to Transmission Network Charges owed to the licensee by one or more Defaulting Connection and Use of System Code Party, less the interest income accrued at the default rate set out in the CUSC net of K correction rate of interest with respect to the COVID-19 Scheme; and

$RBD_t$  means the aggregate value of monies received with respect to Bad Debt, inclusive of RIIO-1 Bad Debt and COVID-19 Bad Debt, previously recovered by the licensee via the  $BDA_t$  term, where the licensee has received cash through either the Defaulting Connection and Use of System Code Party or through the administrator or liquidator of a Defaulting Connection and Use of System Code Party.

## Special Condition 3.3 RIIO-1 Network Innovation Competition (NICF<sub>t</sub>)

### Introduction

- 3.3.1 The purpose of this condition is to set out the process for deciding the term NICF<sub>t</sub> (the Network Innovation Competition term). This contributes to the calculation of Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).
- 3.3.2 The NIC ran during the RIIO-1 price control period to fund innovative low carbon and environmental projects. Although it will no longer run for the licensee from 1 April 2021, the purpose of this condition is to make provision for the arrangements that will enable the Authority to determine the value of the NICF<sub>t</sub> and for arrangements relating to the regulation, administration, and governance of the NIC Funding.
- 3.3.3 Parts A and B are supplemented by the relevant provisions of the NIC Governance Document.

### Part A: The Funding Return Mechanism

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

### Part B: Determination of the NICF<sub>t</sub>

- 3.3.5 In each Regulatory Year, in accordance with the appropriate provisions set out in the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and other electricity Transmission Licensees, specify:

- (a) the value of  $NICF_t$  for the licensee;
  - (b) the net amounts that are to be transferred between the licensee and other Transmission Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for Regulatory Year  $t$  that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any 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.
- 3.3.6 The licensee must comply with any direction issued by the Authority under paragraph 3.3.5.

### **Part C: The NIC Governance Document**

- 3.3.7 The licensee must comply with the NIC Governance Document.
- 3.3.8 The Authority will amend the NIC Governance Document by direction.
- 3.3.9 The Authority will publish the NIC Governance Document on the Authority's Website.
- 3.3.10 The NIC Governance Document makes and will continue to make provision about:
- (a) the process and procedures that will be in place for the assessment, approval, and financing of project funding (where necessary);
  - (b) arrangements to ensure that relevant matters the licensee has learned from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Transmission Licensees;
  - (c) 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);
  - (d) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
  - (e) any other matters relating to the governance of the NIC.

### **Part D: Procedure for revising the NIC Governance Document**

- 3.3.11 Before amending the NIC Governance Document by direction, the Authority will publish on the Authority's website:
- (a) the text of the NIC Governance Document;
  - (b) the date on which the Authority intends the amended NIC Governance Document to come into effect;
  - (c) the reasons for the amendments to the NIC Governance Document; and

- (d) a period during which representations may be made on the amendments to the NIC Governance Document, which will not be less than 28 days.

## **Special Condition 3.4 The strategic innovation fund (SIFF<sub>t</sub>)**

### **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<sub>t</sub>. 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<sub>t</sub> term**

- 3.4.4 The SIFF<sub>t</sub> 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<sub>t</sub> term for the licensee, being the amount (if any) to be recovered by the licensee in order to contribute to its own, 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, other Transmission Licensees and any body administering the SIF in order to ensure that each 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 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:
- (a) the text of the amended SIF Governance Document;
  - (b) the date on which the Authority intends the amended SIF Governance Document to come into effect;
  - (c) the reasons for the amendment to the SIF Governance Document; and
  - (d) 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 comes into effect.

## Special Condition 3.5 Legacy adjustments to revenue

### Introduction

- 3.5.1 The purpose of this condition is to calculate the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

### Part A: Formula for calculating total legacy adjustments ( $LAR_t$ )

- 3.5.2 The value of the  $LAR_t$  term is derived in accordance with the following formula:

$$LAR_t = LTRU_t + LPT_t - LK_t + LDIS_t + LTS_t$$

where:

- $LTRU_t$  has the value of  $TRU_t$  as determined in accordance with Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021. For Regulatory Years commencing on or after 1 April 2025, the value of  $LTRU_t$  is equal to zero;
- $LPT_t$  means the legacy pass-through term and is derived in accordance with Part B of this condition;
- $LK_t$  has the value of  $K_t$  as determined in accordance with Part E of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 and for Regulatory Years commencing on or after 1 April 2022, the value of  $LK_t$  is equal to zero;
- $LDIS_t$  means the legacy Site-Specific Charges adjustment term and has the value  $DIS_t$  as determined in accordance with Part B of Special Condition 3A (Restriction of Transmission network revenue) of this licence as in force on 31 March 2021; and
- $LTS_t$  means the legacy bilateral difference adjustment term and has the value  $DIS_t$  as determined in accordance with Part B of Special

Condition 3A (Restriction of Transmission network revenue) of this licence as in force on 31 March 2021.

### **Part B: Formula for calculating the RIIO-ET1 pass through items ( $LPT_t$ )**

- 3.5.3 For Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of  $LPT_t$  is derived in accordance with the following formula:

$$LPT_t = LLF_t + LITC_t + LRB_t$$

where:

$LLF_t$  has the value of  $LF_t$  as determined in accordance with Part C of Special Condition 3B (Calculation of allowed pass-through items) of this licence as in force on 31 March 2021;

$LITC_t$  has the value of  $ITC_t$  as determined in accordance with Part E Special Condition 3B (Calculation of allowed pass-through items) of this licence as in force on 31 March 2021; and

$LRB_t$  has the value of  $RB_t$  as determined in accordance with Part B Special Condition 3B (Calculation of allowed pass-through items) of this licence as in force on 31 March 2021.

- 3.5.4 For Regulatory Years commencing on or after 1 April 2023, the value of  $LPT_t$  is equal to zero.

## **Special Condition 3.6 Adjustment term ( $ADJ_t$ )**

### **Introduction**

- 3.6.1 The purpose of this condition is to calculate the term  $ADJ_t$  (the adjustment term), which in turn feeds into Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

### **Part A: Formula for calculating the adjustment term ( $ADJ_t$ )**

- 3.6.2 For the Regulatory Year commencing on 1 April 2021, the value of  $ADJ_t$  is zero.

- 3.6.3 For subsequent Regulatory Years, the value of  $ADJ_t$  is derived in accordance with the following formula:

$$ADJ_t = (TO_{t-1} - TO^*_{t-1}) * (1 + I_{t-1} + 1.15\%)$$

where:

$TO_t$  means Maximum Revenue derived in accordance with Special Condition 3.1 (Transmission Network Revenue Restriction);

$TO^*_t$  means Maximum Revenue as forecast and published by the system operator by 1 April of Regulatory Year  $t$ ; and

$I_t$  means the average value of SONIA.



## Special Condition 3.7 Correction Term ( $K_t$ )

### Introduction

- 3.7.1 The purpose of this condition is to calculate the term  $K_t$  (the correction term), which in turn feeds into Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

### Part A: Formula for calculating the adjustment term ( $K_t$ )

- 3.7.2 For the Regulatory Year commencing on or after 1 April 2022, the value of  $K_t$  is zero.
- 3.7.3 For Regulatory Year commencing 1 April 2021, the value of  $K_t$  is derived in accordance with the following formula:

$$K_t = (TO_{t-1} - TNR_{t-1})(1 + I_{t-1} + 1.15\% + PRP_{t-1}PRA_{t-1})$$

where:

- $TO_t$  has the value of  $TO_t$  as determined in accordance with Part A of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021;
- $TNR_t$  has the value of  $TNR_t$  as determined in accordance with Part A of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021;
- $I_t$  means the average value of SONIA;
- $PRP_t$  means the penal rate proportion and has the value of 1, unless the Authority directs otherwise in accordance with paragraph 3.7.5; and
- $PRA_t$  means the penal rate adjustment, derived in accordance with paragraph 3.7.4.

- 3.7.4 The value of  $PRA_t$  is derived in accordance with the following formula:

$$PRA_t = \begin{cases} 1.15\% & \text{if } TNR_t / TO_t \geq 1.055 \\ -1.15\% & \text{if } TNR_t / TO_t \leq 0.945 \\ 0, & \text{otherwise} \end{cases}$$

where:

- $TO_t$  is derived in accordance with Part A; and
- $TNR_t$  is derived in accordance with Part A.

- 3.7.5 The Authority will direct a value for  $PRP_t$  which is not less than zero and not more than 1, if it is satisfied that differences between Recovered Revenue and

Allowed Revenue were for reasons outside the reasonable control of the licensee.

# Chapter 4: System Operator Revenue Restriction

## Special Condition 4.1 System Operator Internal Revenue Restriction

### Introduction

4.1.1 The purpose of this condition is:

- (a) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its internal costs in relation to Balancing Services Activity; and
- (b) to set out the obligations of the licensee in respect of those charging restrictions.

### Part A: Licensee's obligation in relation to internal costs

4.1.2 The licensee must use best endeavours to ensure that the revenue collected by the licensee from the Balancing Services Activity associated with internal costs does not exceed SO Internal Allowed Revenue.

### Part B: Formula for calculating the SO Internal Allowed Revenue term (SOIAR<sub>t</sub>)

4.1.3 The value of SOIAR<sub>t</sub> is derived in accordance with the following formula:

$$SOIAR_t = ADJR_t^* + SOLAR_t$$

where:

$ADJR_t^*$  means adjusted revenue most recently published by the Authority pursuant to Part B of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model) prior to the start of Regulatory Year  $t$ ; and

$SOLAR_t$  means legacy adjustments and is derived in accordance with Special Condition 4.8 (System Operator Legacy Adjustments (SOLAR<sub>t</sub>)).

### Part C: Formula for calculating Adjusted Revenue (ADJR<sub>t</sub>)

4.1.4 The value of ADJR<sub>t</sub> is derived in accordance with the following formula

$$ADJR_t = R_t \frac{PI_t}{PI_{2018/19}} + ADJ_t$$

where:

$R_t$  means Calculated Revenue derived in accordance with Part D;

$PI_t$  means the price index [term](#) derived in accordance with Part E; and

$ADJ_t$  means the AIP adjustment term derived in accordance with Part F.

## Part D: Formula for calculating the Calculated Revenue term ( $R_t$ )

4.1.5 The value of  $R_t$  is derived in accordance with the following formula:

$$R_t = FM_t + SOPT_t + DPN_t + RTN_t + EIC_t + ADF_t + DRS_t + ORA_t + ESORI_t + TAX_t + TAXA_t$$

$FM_t$  means fast money and has the value set out in sheet *SystemOperator* of the ESO Price Control Financial Model;

$SOPT_t$  is derived in accordance with Part G;

$DPN_t$  means regulatory depreciation and has the value set out in sheet *SystemOperator* of the ESO Price Control Financial Model;

$RTN_t$  means return and has the value set out in sheet *SystemOperator* of the ESO Price Control Financial Model;

$EIC_t$  means equity issuance costs and has the value set out in sheet *SystemOperator* of the ESO Price Control Financial Model;

$ADF_t$  means additional funding and has the value set out in sheet *SystemOperator* of the ESO Price Control Financial Model;

$DRS_t$  means Directly Remunerated Services adjustment as defined in Special Condition 2.9 (Services treated as Directly Remunerated Services) and has the value set out in sheet *SystemOperator* of the ESO Price Control Financial Model;

$ORA_t$  means other revenue allowance derived in accordance with Special Condition 4.5 (Total other revenue allowance);

$ESORI_t$  means the incentive value for the Electricity System Operator Reporting and Incentive Arrangements, as derived in accordance with Special Condition 4.3 (Electricity System Operator Reporting and Incentive Arrangements);

$TAX_t$  means the tax allowance and has the value given in sheet *SystemOperator* of the ESO Price Control Financial Model; and

$TAXA_t$  means the tax allowance adjustment term and has the value zero, unless the Authority directs otherwise under Part J.

## Part E: Formula for calculating the Price Index term ( $PI_t$ )

4.1.6 The value of  $PI_t$  is the arithmetic average value of each of the twelve monthly values of  $PI_m$  from 1 April to 31 March within Regulatory Year  $t$ , derived in accordance with the following formula:

$$PI_m = \begin{cases} RPI_m, & \text{if } m < \text{April 2021} \\ PI_{m-1} \left( 0.5 \frac{CPIH_m}{CPIH_{m-1}} + 0.5 \frac{RPI_m}{RPI_{m-1}} \right), & \text{if } m = \text{April 2021} \\ PI_{m-1} \cdot \frac{CPIH_m}{CPIH_{m-1}}, & \text{if } m > \text{April 2021} \end{cases}$$

where:

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- $m$  refers to a year and month;
- $RPI_m$  means the Retail Prices Index for the year and month  $m$ ; and
- $CPIH_m$  means the Consumer Prices Index Including Owner Occupiers' Housing Costs for the year and month  $m$ .

#### **Part F: Formula for calculating the AIP adjustment term ( $ADJ_t$ )**

- 4.1.7 For the Regulatory Year commencing on 1 April 2021, the value of  $ADJ$  is zero.
- 4.1.8 For subsequent Regulatory Years, the value of  $ADJ_t$  is derived in accordance with the following formula:

$$ADJ_t = (ADJR_{t-1} - ADJR_{t-1}^*)(1 + TVM_{t-1})$$

where:

- $ADJR_t$  is derived in accordance with Part C;
- $ADJR_t^*$  means adjusted revenue most recently published by the Authority pursuant to Part B of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model) prior to the start of Regulatory Year  $t$ ; and
- $TVM_t$  means the time value of money term derived in accordance with paragraph 4.1.9.

- 4.1.9 The value of  $TVM_t$  is derived in accordance with the following formula:

$$TVM_t = (1 + WACC_t) \frac{PI_{t+1}}{PI_t} - 1$$

where:

- $WACC_t$  means the vanilla weighted average cost of capital for the licensee as derived by the Authority in accordance with the ESO Price Control Financial Handbook; and
- $PI_t$  means the price index derived in accordance with Part E.

#### **Part G: Formula for calculating the allowed pass-through items ( $SOPT_t$ )**

- 4.1.10 The value of  $SOPT_t$  is derived in accordance with the following formula:

$$SOPT_t = RB_t + EDE_t + SOBD_t + WCF_t$$

where:

- $RB_t$  means the amount levied on the licensee in respect of the Prescribed Rates (or any equivalent tax or duty replacing them) or an amount directed under Part H;
- $EDE_t$  means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory

Year as further explained and elaborated upon in the ESO Price Control Financial Handbook;

$SOBD_t$  is derived in accordance with Part I; and

$WCF_t$  means the Working Capital Facility fees as defined in the PCFH.

#### **Part H: Review of Prescribed Rates pass-through term ( $RB_t$ )**

4.1.11 As part of any periodic revaluation, the licensee must:

- (a) engage with the Relevant Valuation Agency; and
- (b) use reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.

4.1.12 The Authority will review the licensee's engagement with the Relevant Valuation Agency with respect to a revaluation.

4.1.13 If, after reviewing the licensee's engagement with the Relevant Valuation Agency and requesting any further information required from the licensee with respect to a particular revaluation, the Authority considers that the licensee has not complied with paragraph 4.1.11, the Authority will adjust the value of  $RB_t$  by direction.

#### **Part I: Formula for calculating the SO Bad Debt term ( $SOBD_t$ )**

4.1.14 The value of  $SOBD_t$  is derived in accordance with the following formula:

$$SOBD_t = SOBDA_t - SORBD_t$$

where:

$SOBDA_t$  means the aggregate value of SO Bad Debt the licensee has incurred or expects to incur, inclusive of RIIO-1 SO Bad Debt with respect to Balancing Services Activity charges owed to the licensee by one or more Defaulting Connection and Use of System Code Party; and

$SORBD_t$  means the aggregate value of SO Bad Debt previously recovered, inclusive of RIIO-1 SO Bad Debt, by the licensee via the  $SOBDA_t$  term, where the licensee has received cash through either the Defaulting Connection and Use of System Code Party or been credited by the administrator or liquidator of a Defaulting Connection and Use of System Code Party.

#### **Part J: Tax Allowance Adjustment ( $TAXA_t$ )**

4.1.15 The Authority may undertake a Tax Review of any material, unexplained differences between the licensee's Calculated Tax Allowance and its Actual

Corporation Tax Liability, in accordance with Chapter 5 of the ESO Price Control Financial Handbook.

- 4.1.16 Where the Authority notifies the licensee that it has decided to undertake a Tax Review and given the reasons for that decision, the licensee must:
- (a) procure an Appropriately Qualified Independent Examiner to examine the differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability and send a report to the Authority;
  - (b) carry out any reasonable steps specified by the Authority for such a procurement and comply with any requirements reasonably specified by the Authority as to the terms of appointment of the Appropriately Qualified Independent Examiner;
  - (c) ensure that the Appropriately Qualified Independent Examiner carries out the work within the scope, and by the date, reasonably specified by the Authority, after discussing with the examiner; and
  - (d) send to the Authority a report from the Appropriately Qualified Independent Examiner in the form, and containing the content, specified by the Authority, following discussion with the examiner.
- 4.1.17 Following receipt of the Appropriately Qualified Independent Examiner's report, the Authority will:
- (a) direct any adjustment to the value of the  $TAXA_t$  term that it considers should be made, taking account of said report; and
  - (b) specify the Regulatory Years to which those adjustments relate.
- 4.1.18 Before making a direction under paragraph 4.1.17, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations on the proposed direction may be made, which will not be less than 28 days.

## **Special Condition 4.2 Balancing Services Activity Revenue Restriction on External Costs**

### **Introduction**

- 4.2.1 The purpose of this condition is:
- (a) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its external balancing costs; and
  - (b) to set out the obligations of the licensee in respect of those charging restrictions.

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**Part A: Balancing services activity revenue restriction on external costs (BXext<sub>t</sub>)**

- 4.2.2 The licensee must use best endeavours to ensure that the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) does not exceed the BXext<sub>t</sub> term, calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + SOTOC_t + LOCTRU_t + BSUoSCOVID_t$$

where:

*CSOBM<sub>t</sub>* is the cost to the licensee of bids and offers in the Balancing Mechanism accepted by the licensee less the total non-delivery charge and is the sum of the values of CSOBM<sub>j</sub> (being the System Operator BM cashflow for each settlement period j as defined in the BSC);

*BSCC<sub>t</sub>* means the costs to the licensee of contracts for the availability or use of Balancing Services and associated costs, excluding costs within CSOBM<sub>t</sub> but including charges made by the licensee for the provision of Balancing Services to itself;

*TotAdj<sub>t</sub>* means the amount of any adjustment as provided in paragraph 4.2.3;

*OM<sub>t</sub>* means an amount representing the revenue from the provision of balancing services to others, derived in accordance with Part C;

*SOTOC<sub>t</sub>* means the SO-TO cost allowance term, calculated in accordance with Special Condition 4.4 (SO-TO Mechanism);

*LOCTRU<sub>t</sub>* has the value of:

OCTRU<sub>t</sub> as determined in accordance with Part A of Special Condition 4J (SO-TO Mechanism) of this licence as in force on 31 March 2021; and

LOCTRU<sub>t</sub> for Regulatory Years commencing on or after 1 April 2023 is zero; and

*BSUoSCOVID<sub>t</sub>* means for Regulatory Year 2021/22 the total cost of the Covid Support Scheme incurred in 2020/21, including any administrative or financing cost borne by the system operator, as per Section 1.30 of CUSC and for other Regulatory Years thereafter the value of this term will be zero.

## **Part B: Balancing Services Activity adjustments (TotAdj<sub>t</sub>)**

4.2.3 For the purposes of paragraph 4.2.2, the term TotAdj<sub>t</sub> which relates to prior period adjustments in respect of the Regulatory Year t, means the costs, whether positive or negative, to the licensee of:

- (a) bids and offers in the Balancing Mechanism accepted by the licensee in any period before Regulatory Year t less the total non-delivery charge for that period;
- (b) contracts for the availability or use of balancing services during any period before Regulatory Year t, excluding costs within CSOBM<sub>t</sub> for that period, but including charges made by the licensee for the provision of balancing services to itself in that period; and
- (c) the difference between the value of IncPayExt<sub>t</sub> in respect of 2020/21 (directed by the Authority in accordance with paragraph 4M.19 of Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements) of this licence as in force on the 31 March 2021) and the amount the licensee has recovered in 2020/21 based on its reasonable expectations of revenue associated with IncPayExt<sub>t</sub> in respect of 2020/21, with the prior written consent of the Authority for Regulatory Year 2021/22 only.

in each case after deducting such costs to the extent that they have been taken into account in any Regulatory Year in computing the terms CSOBM<sub>t</sub> or BSCC<sub>t</sub>.

## **Part C: Provision of balancing services to others (OM<sub>t</sub>)**

4.2.4 The value of OM<sub>t</sub> is the net of:

- (a) the total amount (exclusive of interest and Value Added Tax attributable thereto) recovered by the licensee under any agreements entered into between an electricity supplier or network operator and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a User System are charged to that electricity supplier or network operator; and
- (b) the total costs (exclusive of interest and Value Added Tax attributable thereto) incurred by the licensee which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the National Electricity Transmission System or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 4.2.4(a)) or network operator (as defined in the Grid Code).

## **Special Condition 4.3 Electricity System Operator Reporting and Incentive Arrangements (ESORI<sub>t</sub>)**

### **Introduction**

- 4.3.1 The purpose of this condition is to calculate the term ESORI<sub>t</sub> (the Electricity System Operator Reporting and Incentives term). This contributes to the calculation of Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).
- 4.3.2 The effect of the Electricity System Operator Reporting and Incentive is to reward or penalise the licensee for how it performed its role as the Electricity System Operator.
- 4.3.3 This condition also explains the process the Authority will follow in issuing and amending the Business Plan Guidance Document and the ESORI Arrangements Guidance Document.

### **Part A: The Electricity System Operator Reporting and Incentive term (ESORI<sub>t</sub>)**

- 4.3.4 The value of ESORI<sub>t</sub> will be directed by the Authority and will be no greater than a maximum value of £30m, in aggregate, across each 2 year period of the Business Plan Cycle and not less than a minimum value of negative £12m, in aggregate across each 2 year period of the Business Plan Cycle, as determined under this condition and the ESORI Arrangements Guidance Document.
- 4.3.5 Before issuing a direction under paragraph 4.3.4 the Authority will publish on the Authority's Website:
  - (a) the text of the proposed direction;
  - (b) the reasons why it proposes to issue the direction; and
  - (c) a period during which representations on the proposed direction may be made, which will not be less than 28 days.

### **Part B: Business Plan Guidance Document**

- 4.3.6 The Authority will issue a document to be known as the Business Plan Guidance Document that sets out the governance and process by which the licensee must submit the Business Plan to the Authority and the governance and process by which the Authority will assess the Business Plan.
- 4.3.7 The licensee must comply with the Business Plan Guidance Document.
- 4.3.8 The Authority will issue and amend the Business Plan Guidance Document by direction.
- 4.3.9 The Authority will publish the Business Plan Guidance Document on the Authority's Website.

- 4.3.10 The Business Plan Guidance Document will include provisions about or impose requirements in relation to:
- (a) the dates for the submission of and determinations for the Business Plan;
  - (b) the contents of the Business Plan;
  - (c) how the Authority will assess the Business Plan; and
  - (d) the duration of the Business Plan Cycle.
- 4.3.11 Before issuing new or amending the Business Plan Guidance Document, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Business Plan Guidance Document;
  - (b) the date on which the Authority intends the Business Plan Guidance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Business Plan Guidance Document, which will not be less than 28 days.

### **Part C: The ESORI Arrangements Guidance Document**

- 4.3.12 The Authority will issue a document to be known as the ESORI Arrangements Guidance Document that sets out the process by which the Authority will assess the performance of the licensee and how it will determine the ESORI<sub>t</sub> term in respect of each Business Plan Cycle.
- 4.3.13 The licensee must comply with the ESORI Arrangements Guidance Document.
- 4.3.14 The Authority will issue and amend ESORI Arrangements Guidance Document by direction.
- 4.3.15 The Authority will publish the ESORI Arrangements Guidance Document on the Authority's Website.
- 4.3.16 The ESORI Arrangements Guidance Document will include provisions about or impose requirements in relation to:
- (a) the criteria against which the performance of the licensee will be assessed;
  - (b) the process and procedures that will be in place for assessing the performance of the licensee, including the role of the ESO Performance Panel in this process;
  - (c) the requirements the licensee must fulfil as part of the assessment process, including the information the licensee must provide and its attendance at ESO Performance Panel meetings;
  - (d) the information used for the performance assessment, including how the Business Plan and reporting during the Business Plan Cycle will be used in that evaluation;
  - (e) how the assessment of the performance of the licensee will be used by the Authority to determine the value of ESORI<sub>t</sub>; and

- (f) any other matters relating to the regulation, governance, or administration of the ESORI Arrangement.
- 4.3.17 Before issuing new or amending the ESORI Arrangements Guidance Document, the Authority will publish on the Authority's Website:
- (a) the text of the proposed ESORI Arrangements Guidance Document;
  - (b) the date on which the Authority intends the ESORI Arrangements Guidance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the ESORI Arrangements Guidance Document, which will not be less than 28 days.

## Special Condition 4.4 SO-TO Mechanism (SOTOC<sub>t</sub>)

### Introduction

- 4.4.1 The purpose of this condition is to establish the value of SOTOC<sub>t</sub> (the SO-TO Cost term, which feeds into the BXext<sub>t</sub> term in Special Condition 4.2 (Balancing Services Activity Revenue Restriction on External Costs)).
- 4.4.2 The effect of this condition is to ensure that the licensee's allowed revenue reflects the costs of payments to Transmission Owners and Offshore Transmission Owners for Outages Changes, which can be passed through to consumers up to a maximum value.
- 4.4.3 This condition also ensures that the licensee's allowed revenue reflects the cost of payments to Transmission Owners for Commercial Operational Services and Joint Works Projects, which can be passed through to consumers up to a maximum value.

### Part A: Formula for calculating the SO-TO Cost term (SOTOC<sub>t</sub>)

- 4.4.4 The value of SOTOC<sub>t</sub> is derived in accordance with the following formula:

$$SOTOC_t = OC_t + COS_t + JW_t$$

where:

- OC<sub>t</sub> means the costs incurred by the licensee for payments to Transmission Owners and Offshore Transmission Owners or any successor company to each in respect of Outage Changes up to a maximum of £1,900,000 or a maximum value directed otherwise by the Authority;
- COS<sub>t</sub> means the costs incurred by the licensee for payments to Transmission Owners or any successor company to each in respect of Commercial Operational Services up to a maximum of £1,900,000 or a maximum value directed otherwise by the Authority; and
- JW<sub>t</sub> means the costs incurred by the licensee for payments to Transmission Owners or any successor company to each in respect of a Joint Works

Projects where there has been a direction by the Authority to approve these Joint Work Projects in accordance with Part C.

#### **Part B: Notice of Joint Works Projects**

- 4.4.5 The licensee must give notice of a Joint Works Project to the Authority where it considers, and can provide supporting evidence that the benefits of the Joint Works Project outweigh the associated costs.
- 4.4.6 A notice given to the Authority under paragraph 4.4.5 must give particulars of:
- (a) the project to which the notice relates and the reasons why the licensee considers the project satisfies the Joint Works Project Principles;
  - (b) the anticipated level of cost savings that can be demonstrated by the licensee as likely to result from the project and how the level of these cost savings has been calculated; and
  - (c) any other analysis or information which the licensee considers to be required to enable the Authority fully to assess the projects savings to which the notice relates.
- 4.4.7 Any notice submitted to the Authority under paragraph 4.4.5 must clearly identify whether any of the information contained in the notice is of a confidential nature.

#### **Part C: Authority direction on Joint Works Project**

- 4.4.8 The Authority will direct whether to approve or reject the Joint Works Project submitted under Part B as well as its view on the appropriate range of costs in respect of that Joint Works Project.
- 4.4.9 Before issuing a direction under paragraph 4.4.8, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 4.4.10 In the event that the cost the licensee incurs for a Joint Works Project is outside the range of costs specified by the Authority under the direction in paragraph 4.4.8, it must notify the Authority and explain why these costs were economically and efficiently incurred.

## Special Condition 4.5 Total other revenue allowances (ORA<sub>t</sub>)

### Introduction

- 4.5.1 The purpose of this condition is to calculate the term ORA<sub>t</sub> (the other revenue allowance term). This contributes to the calculation of Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

#### Part A: Formula for calculating total other revenue allowance (ORA<sub>t</sub>)

- 4.5.2 The value of ORA<sub>t</sub> is derived in accordance with the following formula:

$$ORA_t = NIA_t + CNIA_t + PRPN_t$$

where:

- NIA<sub>t</sub> is the network innovation allowance and is derived in accordance with Special Condition 4.6 (RIIO-2 network innovation allowance);
- CNIA<sub>t</sub> is the carry over network innovation allowance and is derived in accordance with Special Condition 4.7 (Carry-over Network Innovation Allowance); and
- PRPN<sub>t</sub> means the pre-RIIO pension true up and has the value given in the ESO Price Control Financial Model.

## Special Condition 4.6 The RIIO-2 network innovation allowance (NIA<sub>t</sub>)

### Introduction

- 4.6.1 The purpose of this condition is to calculate NIA<sub>t</sub> (the network innovation allowance term) which feeds into the calculation of the Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).
- 4.6.2 The effect of this condition is to fund investment in innovation by means of the NIA.
- 4.6.3 This condition also establishes a framework for the governance and administration of the NIA.

#### Part A: Formula for calculating the network innovation allowance term (NIA<sub>t</sub>)

- 4.6.4 Subject to paragraph 4.6.5, the value of the NIA<sub>t</sub> term is derived in accordance with the following formula:

$$NIA_t = 90\% \cdot NIAE_t$$

where:

- NIAE<sub>t</sub> means the Total NIA Expenditure.



- 4.6.5 The total value of the network innovation allowance over the RIIO-2 Price Control Period is subject to the following cap:

$$\sum_{t=2021/22}^{2025/26} (NIA_t) \leq (TNIA_t)$$

where:

$NIA_t$  is derived in accordance with paragraph 4.6.4; and  
 $TNIA_t$  means the value of the licensee's network innovation allowance as set out in Appendix 1.

- 4.6.6 The licensee must not spend more than 25% of Total NIA Expenditure on internal resources over the Price Control Period.

#### **Part B: The RIIO-2 NIA Governance Document**

- 4.6.7 The licensee must comply with the RIIO-2 NIA Governance Document.
- 4.6.8 The Authority will issue and amend the RIIO-2 NIA Governance Document by direction.
- 4.6.9 The Authority will publish the RIIO-2 NIA Governance Document on the Authority's Website.
- 4.6.10 The RIIO-2 NIA Governance Document will make provision about the regulation, governance and administration of the NIA, including:
- (a) the definition of 'unrecoverable NIA expenditure';
  - (b) the eligibility criteria, which RIIO-2 NIA Projects must meet;
  - (c) the information that is to be published by the licensee before RIIO-2 NIA Projects can begin;
  - (d) the circumstances in which the licensee will require approval from the Authority before beginning a RIIO-2 NIA Project, and the processes and procedures for that approval;
  - (e) arrangements for ensuring that learning from RIIO-2 NIA Projects can be captured and disseminated by the licensee to other Transmission Licensees and holders of an Electricity Distribution Licence;
  - (f) the reporting obligations in respect of RIIO-2 NIA Projects (which may include reporting in respect of the funding and the completion of such projects, and the provisions of the RIIO-2 NIA Governance Document); and
  - (g) arrangements relating to the treatment of intellectual property rights in respect of RIIO-2 NIA Projects.
- 4.6.11 Before directing that the RIIO-2 NIA Governance Document comes into effect, the Authority will publish on the Authority's Website:

- (a) the text of the proposed RIIO-2 NIA Governance Document;
  - (b) the date on which the Authority intends the RIIO-2 NIA Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the RIIO-2 NIA Governance Document, which will not be less than 28 days.
- 4.6.12 Before directing an amendment to the RIIO-2 NIA Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended RIIO-2 NIA Governance Document;
  - (b) the date on which the Authority intends the amended RIIO-2 NIA Governance Document to come into effect;
  - (c) the reasons for the amendment to the RIIO-2 NIA Governance Document; and
  - (d) a period during which representations may be made on the amendment to the RIIO-2 NIA Governance Document, which will not be less than 28 days.

### **Part C: Involvement of external stakeholders within the licensee's RIIO-2 NIA Projects**

- 4.6.13 All the licensee's RIIO-2 NIA Projects must involve partnership with at least one external stakeholder, including but not limited to other Transmission Licensees, holders of an Electricity Distribution Licence, third-party innovators, and academics.

## **Appendix 1**

### Value of the licensee's network innovation allowance

Licensee	Value of TNIA (£m)
ESO	20.70

## **Special Condition 4.7 Carry-over Network Innovation Allowance (CNIA<sub>t</sub>)**

### **Introduction**

- 4.7.1 The purpose of this condition is to calculate the term CNIA<sub>t</sub> (the Carry-over Network Innovation Allowance term) which feeds into the Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).
- 4.7.2 The effect of this condition is to extend RIIO-1 Network Innovation Allowance funding.

- 4.7.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the Carry-over Network Innovation Allowance.

**Part A: Formula for calculating the Carry-over Network Innovation Allowance term (CNIA<sub>t</sub>)**

- 4.7.4 For the Regulatory Year commencing on 1 April 2021, the value of CNIA is calculated in accordance with the following formula:

$$CNIA_t = (0.9 \cdot \min[ECNIA_t, CNIAV] - CNIA R_t) \frac{PI_{2018/19}}{PI_t}$$

where:

ECNIA<sub>t</sub> means the expenditure incurred by the licensee in respect of Eligible CNIA Projects as calculated by the licensee in accordance with the RIIO-1 NIA Governance Document and reported to the Authority in accordance with Standard Special Condition B15 (Regulatory Instructions and Guidance);

CNIAV is derived in accordance with Part B;

CNIA R<sub>t</sub> means an amount recovered by the licensee in relation to the Regulatory Year 2021/22 under the RIIO-1 Network Innovation Allowance which the Authority has directed is unrecoverable in accordance with the RIIO-1 NIA Governance Document; and

PI<sub>t</sub> is the price index calculated in accordance with Part E of Special Condition 4.1 (System Operator Internal Revenue Restriction).

- 4.7.5 For Regulatory Years commencing on or after 1 April 2022, the value of CNIA<sub>t</sub> is equal to zero.
- 4.7.6 Eligible CNIA Internal Expenditure may not exceed 25% of the total Eligible CNIA, unless the Authority otherwise consents.

**Part B: Formula for calculating the Carry-over Network Innovation Allowance Value term (CNIAV)**

- 4.7.7 The value of CNIAV is calculated in accordance with the following formula:

$$CNIAV = NIAV_{2020/21} * NGETBR_{2020/21} - (ENIA_{2020/21} + BPC_{2020/21})$$

where:

NIAV the value of NIAV2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021;

NGETBR the value of NGETBR2020/21 is the value of 'BR' as calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021;

- ENIA the value of ENIA2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; and
- BPC the value of BPC2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021.

### **Part C: The RIIO-1 NIA Governance Document**

- 4.7.8 The Authority will amend the RIIO-1 NIA Governance Document by direction.
- 4.7.9 The RIIO-1 NIA Governance Document may, without limitation, make additional provision about or impose requirements in respect of:
- (a) arrangements for ensuring that relevant learning from Eligible CNIA Projects can be captured and disseminated by the licensee to other Transmission Licensees and holders of a Distribution License;
  - (b) 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 RIIO-1 NIA Governance Document);
  - (c) arrangements relating to the treatment of intellectual property rights in respect of Eligible CNIA Projects; and
  - (d) any other matters relating to the regulation, governance or administration of the Carry-over Network Innovation Allowance.
- 4.7.10 The licensee must comply with the RIIO-1 NIA Governance Document.

### **Part D: Procedure for amending the RIIO-1 NIA Governance Document**

- 4.7.11 Before amending the RIIO-1 NIA Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended RIIO-1 NIA Governance Document;
  - (b) the reasons for the amendments to the RIIO-1 NIA Governance Document; and
  - (c) a period during which representations may be made on the amendments to the RIIO-1 NIA Governance Document, which will not be less than 28 days.
- 4.7.12 The requirements of paragraph 4.7.11 may be satisfied by action taken by the Authority before or after the commencement of this condition.

## Special Condition 4.8 System Operator Legacy Adjustments (SOLAR<sub>t</sub>)

### Introduction

- 4.8.1 The purpose of this condition is to calculate the term *SOLAR<sub>t</sub>* (the System Operator legacy adjustments term), which in turn feeds into SO Internal Allowed Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

### Part A: The formula for calculating the System Operator legacy adjustment term (SOLAR<sub>t</sub>)

- 4.8.2 The value of the *SOLAR<sub>t</sub>* term is derived in accordance with the following formula:

$$SOLAR_t = LSOMOD_t + LSOTRU_t + LSOEMRINC_t$$

where:

<i>LSOMOD<sub>t</sub></i>	has the value in sheet <i>SystemOperator</i> of the ESO Price Control Financial Model unless the Authority directs otherwise in accordance with Part B;
<i>LSOTRU<sub>t</sub></i>	is derived in accordance with Part C; and
<i>LSOEMRINC<sub>t</sub></i>	is derived in accordance with Part D.

### Part B: The formula for calculating the System Operator legacy MOD term (LSOMOD<sub>t</sub>)

- 4.8.3 The value of *LSOMOD<sub>t</sub>* is derived in accordance with the following formula:

$$LSOMOD_t = SOMOD_t * RPIF_t$$

where:

<i>SOMOD<sub>t</sub></i>	has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the ESO Price Control Financial Model, performed in accordance with Chapter 7 (legacy) of the ESO2 Price Control Financial Handbook; and
<i>RPIF<sub>t</sub></i>	has the value of <i>RPIF<sub>t</sub></i> as determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook.

- 4.8.4 The Authority will direct revisions to *LSOMOD<sub>t</sub>*, coinciding with the Annual Iteration Process.
- 4.8.5 Before making a direction under paragraph 4.8.4 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

**Part C: The formula for calculating the System Operator legacy TRU term (LSOTRU<sub>t</sub>)**

- 4.8.6 For the three Regulatory Years commencing on 1 April 2021 to 1 April 2024, the value of LSOTRU<sub>t</sub> is derived in accordance with the following formula:

$$LSOTRU_t = SOTRU_t * RPIF_t$$

where:

- SOTRU<sub>t</sub> has the value of SOTRU<sub>t</sub> as determined in accordance with paragraph 4A.5 of Part C of Special Condition 4A (Restriction of System Operator Internal Revenue) of this licence as in force on 31 March 2021; and
- RPIF<sub>t</sub> has the value of RPIF<sub>t</sub> determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook.

**Part D: The formula for calculating the System Operator legacy EMR incentives term (LSOEMRINC<sub>t</sub>)**

- 4.8.7 For the two Regulatory Years commencing on 1 April 2021 to 1 April 2022, the value of LSOEMRINC<sub>t</sub> is derived in accordance with the following formula:

$$LSOEMRINC_t = SOEMRINC_t * RPIF_t$$

where:

- SOEMRINC<sub>t</sub> has the value of SOEMRINC<sub>t</sub> as determined in accordance with Part C of Special Condition 4L (Financial Incentives on EMR) of this licence as in force on 31 March 2021; and
- RPIF<sub>t</sub> has the value of RPIF<sub>t</sub> as determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook; and for Regulatory Years commencing on or after 1 April 2023 is zero.

## **Special Condition 4.9 Legacy net RAV additions ( $LSORAV_t$ )**

### **Introduction**

- 4.9.1 This condition explains the process the Authority will follow when directing values for the term  $LSORAV_t$  (the legacy RIIO-1 net RAV additions term). This contributes to the calculation of the term  $DPN_t$  (the depreciation term as calculated by the ESO Price Control Financial Model), which in turn feeds into SO Internal Allowed Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).
- 4.9.2 The effect is to reflect the close out of the RIIO-ESO Price Control Financial Model in respect of legacy net RAV additions.

### **Part A: Authority assessment and direction**

- 4.9.3 The Authority will direct revisions to  $LSORAV_t$ , coinciding with the Annual Iteration Process.
- 4.9.4 Before making a direction under paragraph 4.9.3 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.



# Chapter 5: Governance

## Special Condition 5.1 Governance of the ESO Price Control Financial Instruments

### Introduction

5.1.1 The purpose of this condition is to establish:

- (a) the ESO Price Control Financial Instruments; and
- (b) a robust and transparent change control framework for the ESO Price Control Financial Instruments.

### Part A: The ESO Price Control Financial Instruments

5.1.2 Each of the following ESO Price Control Financial Instruments forms part of this condition:

- (a) the ESO Price Control Financial Handbook; and
- (b) the ESO Price Control Financial Model.

### ~~Part B: Assessment of the likely impact of an intended modification~~Modification of the ESO Price Control Financial Instruments

### ~~Part C: Part B: Assessment of the likely impact of an intended modification~~

~~5.1.3 — 5.1.3 Before initiating any modification of a ESO Price Control Financial Instrument, the Authority will assess whether that modification would be likely to have a significant impact on any of the following persons:~~

~~5.1.4 — (a) the licensee;~~

~~5.1.5 — (b) any other Transmission Licensee in whose licence a condition equivalent to this one has effect;~~

~~5.1.6 — (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~~

~~5.1.7 — (d) energy consumers (whether considered individually, as a whole, or by reference to any class or category of them) in Great Britain.~~

~~5.1.8 — 5.1.4 In making the assessment required by paragraph 5.1.3, the Authority will have regard to all relevant factors including:~~

~~5.1.9 — (a) any impact which an intended modification would be likely to have on any component of the licensee's system operator internal allowed revenues or on any value, rate, time period, or calculation used in the determination of system operator internal allowed revenues; and~~

- ~~5.1.10 (b) in respect of modifications to the ESO Price Control Financial Model, any views expressed by the ESO Price Control Financial Model Working Group.~~
- ~~5.1.11 5.1.5 For the purposes of paragraph 5.1.3, it is to be presumed that a modification which serves to correct a manifest error contained in a ESO Price Control~~
- ~~5.1.12 Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.~~
- ~~5.1.13 Part C: Circumstances in which a modification may be made~~
- ~~5.1.14 5.1.6 If, having carried out the required assessment under Part B, the Authority considers that an intended modification of a ESO Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 5.1.3, it may modify that instrument by direction. Otherwise any modification will be made under section 11A of the Act.~~
- 5.1.3 The Authority may direct modifications to the ESO Price Control Financial Instruments under this Part at any time during the Price Control Period where:
- (a) it becomes aware of a modification that will improve the functionality or clarity of the ESO Price Control Financial Instruments; and
  - (b) the modification will have either no impact on or an impact on the licensee's allowed revenue below the Materiality Threshold.
- 5.1.4 For the purposes of paragraph 5.1.3(b), it is to be presumed that a modification which serves to correct a manifest error will have no impact on the licensee's allowed revenue.
- 5.1.5 The following categories of modifications may be made under this Part:
- (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, cell labelling, renaming or re-ordering of sections or worksheets;
  - (b) deleting irrelevant material such as transitional provisions that have expired;
  - (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
  - (d) consequential changes required to reflect modifications made to the special conditions of this licence such as the addition or removal of PCFM Variable Values; and
  - (e) correction of manifest errors such as discrepancies between the ESO Price Control Financial Instruments and between the ESO Price Control Financial Instruments and the other special conditions of this licence.

## Part C: Circumstances in which a modification may be made

~~5.1.15~~5.1.6 Before making a direction under paragraph 5.1.~~63~~, the Authority will:

(a) consider any views expressed and representations made by the ESO Price Control Financial Model Working Group in relation to modifications of the type set out in paragraphs 5.1.5(a) to (d); and

~~(a)~~(b) publish on the Authority's Website:

- i. the text of the proposed direction;
- ii. the reasons for the proposed direction, including why the Authority believes that the modification meets the requirements of paragraphs 5.1.3 and 5.1.5~~would not be likely to have a significant impact on any of the persons mentioned in paragraph 5.1.3~~; and
- iii. a period during which representations may be made on the proposed direction, which will not be less than 28 days.

~~5.1.16~~5.1.7 A direction under paragraph 5.1.~~63~~ will set out:

- (a) the modifications to the ESO Price Control Finance Instruments; and
- (b) the date from which it is to have effect or the mechanism by which that date is to be determined.

## Part D: Availability and updating of ESO Price Control Financial Instruments

~~5.1.17~~5.1.8 This Part has effect in relation to the publication and availability of the ESO Price Control Financial Handbook, and the ESO Price Control Financial Model.

~~5.1.18~~5.1.9 The Authority will ensure that any modifications of the ESO Price Control Financial Handbook, whether under Part ~~6B~~ or otherwise, are promptly incorporated into a consolidated version of the ESO Price Control Financial Handbook maintained on the Authority's Website.

~~5.1.19~~5.1.10 The Authority will ensure that any modifications of the ESO Price Control Financial Model, whether under Part ~~6B~~ or otherwise, are promptly incorporated into a consolidated version of the ESO Price Control Financial Model maintained on the Authority's Website.

~~5.1.20~~5.1.11 Without limiting the general effect of paragraph 5.1.~~140~~, the Authority will, by no later than 30 November prior to each Regulatory Year:

- (a) publish on the Authority's Website, in Microsoft Excel ® format, the version of the ESO Price Control Financial Model that will be used to calculate and publish the value of the terms  $ADJR_t$  and  $SOIAR_t$  in accordance with the calculation set out in Part B of Special Condition 4.1 (System Operator Internal Revenue Restriction);

- (b) ensure that the electronic name of the file is “ESO PCFM” followed by “November 20XX” where 20XX represents the calendar year containing the month of November prior to the Regulatory Year;
- (c) ensure that the words “ESO Price Control Financial Model for the Annual Iteration Process that will take place by 30 November” followed by the preceding Regulatory Year 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 ESO Price Control Financial Model, whether under Part C or otherwise, up to and including the date of such publication.

~~5.1.21~~5.1.12 The first Regulatory Year in which the Authority will publish a version of the ESO Price Control Financial Model on the Authority’s Website for the purposes of paragraph 5.1.121 will be Regulatory Year 2021/22 and the last Regulatory Year will be 2024/25.

## **Special Condition 5.2 Annual Iteration Process for the ESO Price Control Financial Model**

### **Introduction**

- 5.2.1 The purpose of this condition is to set out the steps of the Annual Iteration Process that will be carried out by the licensee and the Authority each year in relation to the ESO Price Control Financial Model, in order to calculate and publish the value of the terms  $ADJR_t$  and  $SOIAR_t$  in accordance with the calculation set out in Special Condition 4.1 (System Operator Internal Revenue Restriction).
- 5.2.2 This condition also explains the process the Authority will follow in issuing and amending the PCFM Guidance.

### **Part A: Steps comprising the Annual Iteration Process**

- 5.2.3 The paragraphs in this Part set out the steps that comprise the Annual Iteration Process.
- 5.2.4 Step 1: The licensee must, by 31 August 2021 and by 31 July prior to each Regulatory Year, thereafter:
  - (a) use the version of the ESO Price Control Financial Model published by the Authority in accordance with paragraph 5.1.12 or where there has been a republication, the version most recently published to complete the PCFM Variable Values Table with the PCFM Variable Values in accordance with the PCFM Guidance;
  - (b) run the macro on the “UserInterface” sheet of the ESO Price Control Financial Model to calculate the terms  $ADJR_t$  and  $SOIAR_t$ ;
  - (c) save the ESO Price Control Financial Model; and

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- (d) submit the ESO Price Control Financial Model to the Authority.
- 5.2.5 Step 2: The Authority will, taking into account any decisions made by it in relation to PCFM Variable Values under Chapters 4 of this licence:
  - (a) review the ESO Price Control Financial Model submitted by the licensee and confirm or amend any PCFM Variable Values; or
  - (b) where the licensee has not complied with Step 1, complete the PCFM Variable Values Table.
- 5.2.6 Step 3: The Authority will run the macro on the “UserInterface” sheet of the ESO Price Control Financial Model to calculate the terms  $ADJR_t$  and  $SOIAR_t$ .
- 5.2.7 Step 4: The Authority will publish the value of the terms  $ADJR_t$  and  $SOIAR_t$  on its website in accordance with Part B.
- 5.2.8 In relation to Step 1 in paragraph 5.2.4:
  - (a) where a PCFM Variable Value is not known at the time of submission, the licensee must calculate that value in accordance with the ESO Price Control Financial Handbook or the PCFM Guidance, as applicable and otherwise provide its best estimate using the information available at the time; and
  - (b) where any PCFM Variable Value relies on a third-party publication that ceases to be published or no longer contains the value required, the value from the most recent publication that did contain the value, or an alternate input agreed to by the Authority must be used.

**Part B: Publication of the value of the terms  $ADJR_t$  and  $SOIAR_t$**

- 5.2.9 The value of the terms  $ADJR_t$  and  $SOIAR_t$  will be published by the Authority no later than 30 November prior to each Regulatory Year. The published or republished values for the terms  $ADJR_t$  and  $SOIAR_t$  must be used by the licensee when setting Balancing Services Activity related charges in accordance with Special Condition 4.1 (System Operator Internal Revenue Restriction).
- 5.2.10 The Authority may re-publish the values of the terms  $ADJR_t$  and  $SOIAR_t$ , before the end of January prior to the Regulatory Year  $t$ .
- 5.2.11 Before publishing or re-publishing the value of the terms  $ADJR_t$  and  $SOIAR_t$ , the Authority will:
  - (a) send to the licensee:
    - (i) a notice stating the value for  $ADJR_t$  and  $SOIAR_t$  that it proposes to publish; and
    - (ii) a copy of the ESO Price Control Financial Model, which will contain the data used to calculate the value proposed for  $ADJR_t$  and  $SOIAR_t$ ; and
  - (b) specify a period during which representations may be made on the value of  $ADJR_t$  and  $SOIAR_t$ , which will not be less than 14 days.

## **Part C: What if the Annual Iteration Process is not completed by 30 November?**

- 5.2.12 If the Authority does not publish a value for the terms  $ADJR_t$  and  $SOIAR_t$  by 30 November prior to any Regulatory Year, then the Annual Iteration Process will not have been completed and the provisions set out in paragraphs 5.2.13 and 5.2.14 will apply.
- 5.2.13 The Authority will complete the Annual Iteration Process as soon as is reasonably practicable after 30 November by publishing a value for the terms  $ADJR_t$  and  $SOIAR_t$ .
- 5.2.14 In the intervening period (between the 30 November and the date the value of the terms  $ADJR_t$  and  $SOIAR_t$  is published under paragraph 5.2.13), the value of  $SOIAR_t$  will be held to be equal to a value ascertained by:
- (a) taking a copy of the ESO Price Control Financial Model in its state following the last completed Annual Iteration Process or re-publication which, for the avoidance of doubt, will exclude the effect of any functional modifications under paragraph 5.1.3 of Special Condition 5.1 (Governance of the ESO 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 of the ESO Price Control Financial Model to select:
    - (i) the name of the licensee; and
    - (ii) the Regulatory Year equating to the Regulatory Year  $t$ ;
  - (c) pressing the “Run for One” macro button on the “UserInterface” sheet; and
  - (d) recording the value of the terms  $ADJR_t$  and  $SOIAR_t$  for the licensee that is shown as an output value in the “SavedResults” sheet.

## **Part D The final year of the ESO Annual Iteration Process and other clarifications**

- 5.2.15 The last Regulatory Year in which there will be an Annual Iteration Process for the ESO Price Control Financial Model is 2024/2025 for the purpose of determining the value of the terms  $ADJR_t$  and  $SOIAR_t$  for Regulatory Year 2025/26.
- 5.2.16 For the avoidance of doubt, neither:
- (a) an Annual Iteration Process for the ESO Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A; nor
  - (b) a change to the Regulatory Year included in the name of and text within the ESO Price Control Financial Model (as referred to at paragraphs 5.1.12(b) and (c) of Special Condition 5.1 (Governance of the ESO Price Control Financial Instruments),

will constitute a modification of the ESO Price Control Financial Model within the meaning of Part C of Special Condition 5.1.

Where any PCFM Variable Values are revised for years earlier than Regulatory Year  $t$ , the effect of using those revised values in the Annual Iteration Process will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the terms  $ADJR_t$  and  $SOIAR_t$  for Regulatory Year  $t$  and, for the avoidance of doubt, it will not have any retrospective effect on a previously published value of the terms  $ADJR_t$  and  $SOIAR_t$ .

## **Part E The PCFM Guidance**

- 5.2.17 The licensee must comply with the PCFM Guidance when completing the Annual Iteration Process.
- 5.2.18 The Authority will issue and amend the PCFM Guidance by direction.
- 5.2.19 The Authority will publish the PCFM Guidance on the Authority's Website by the PCFM functional change cut-off date set out in the ESO Price Control Financial Handbook.
- 5.2.20 The PCFM Guidance will make provision about:
  - (a) instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process;
  - (b) instructions and guidance on the process and timeframe for reporting and submitting the required data; and
  - (c) any requirements for supporting information, documentation or commentary that are to be submitted.
- 5.2.21 Before directing that the PCFM Guidance comes into effect, the Authority will publish on the Authority's Website:
  - (a) the text of the proposed PCFM Guidance;
  - (b) the date on which the Authority intends the PCFM Guidance to come into effect; and
  - (c) a period during which representations may be made on the content of the PCFM Guidance, which will not be less than 28 days.
- 5.2.22 Before directing an amendment to the PCFM Guidance, the Authority will publish on the Authority's Website:
  - (a) the text of the amended PCFM Guidance;
  - (b) the date on which the Authority intends the amended PCFM Guidance to come into effect;
  - (c) the reasons for the amendments to the PCFM Guidance; and
  - (d) a period during which representations may be made on the amendments to the PCFM Guidance, which will not be less than 28 days.