

To: National Grid Electricity System Operator Limited

**Electricity Act 1989
Section 11A(1)(a)**

**Modification of the special conditions of the electricity transmission licence held
by National Grid Electricity System Operator Limited**

1. National Grid Electricity System Operator Limited (NGESO or ESO) is the holder of an electricity transmission licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 28 January 2022 ('the Notice') that we propose to modify Special Condition (SpC) 1.1 and Special Condition 4.2 of the Licence.² We stated that any representations to the modification proposal must be made on or before 25 February 2022.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received one response to the Notice, which we carefully considered. We have placed this non-confidential response on our website. Our response to the comment is set out in the accompanying letter. The modifications to the Licence are set out in Schedules 1 and 2.
5. It is necessary to make two minor alterations to the modifications proposed in the Notice. These alterations are shown in yellow highlight in the attached Schedule 1 and Schedule 2. The reason for the difference between the modifications set out in the Notice and the modifications reflected in Schedule 1 and Schedule 2 is to correct one minor typographical error and address one minor housekeeping text amendment raised in the consultation response respectively. More information on the changes is detailed in the accompanying letter.
6. We are making these licence changes to allow NGESO to recover Balancing Services Use of System ('BSUoS') charges³ relating to the 2021/22 charging year in the following charging year (2022/23) as directed by our decision⁴ with regards to Connection and Use of System Code (CUSC) Modification Proposal CMP381 published on 14 January 2022.
7. The effect of the modifications is to add a definition of an additional cost term in SpC 1.1.16, include this additional cost term in the formula to calculate the balancing services activity revenue in SpC 4.2.2, and include an additional clause for the associated financing cost in SpC 4.2.3.

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

² <https://www.ofgem.gov.uk/publications/statutory-consultation-proposal-modify-licence-held-electricity-system-operator>

³ BSUoS charges are the means by which NGESO recovers the costs of balancing the electricity transmission system.

⁴ <https://www.ofgem.gov.uk/publications/decision-cmp381>

8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules⁵ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. The attached Schedule 3 provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the special conditions of the electricity transmission licence of National Grid Electricity System Operator Limited in the manner specified in attached Schedules 1 and 2. This decision will take effect from 30 April 2022.

This document is notice of the reasons for the decision to modify the electricity transmission licence held by National Grid Electricity System Operator Limited as required by section 49A(2) of the Act.

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Andrew Malley
Head of Electricity Network Charging
Duly authorised on behalf of the
Gas and Electricity Markets Authority

4 March 2022

⁵ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

Schedule 1: Modifications to Part B 1.1.16 in SpC 1.1 of the electricity transmission licence held by National Grid Electricity System Operator Limited
(Deletions are shown in strike through; new text is double underlined, yellow-highlighted text is an alternation to the modifications set out in the Notice.)

Part B: Definitions

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).
<u>Exceptional Costs Support Scheme</u>	<u>has the meaning given to that term in accordance with section 14 of the CUSC.</u>
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).

Schedule 2: Modifications to Part A 4.2.2 and Part B 4.2.3 in SpC 4.2 of the electricity transmission licence held by National Grid Electricity System Operator Limited (Deletions are shown in strike through; new text is double underlined, yellow-highlighted text is an alternation to the modifications set out in the Notice.)

Part A: Balancing services activity revenue restriction on external costs (BXext_t)

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_t term, calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + SOTOC_t + LOCTRU_t + BSUoSCOVID_t + \underline{BSUoSEXC_t}$$

where:

CSOBM_t 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_j (being the System Operator BM cashflow for each settlement period j as defined in the BSC);

BSCC_t means the costs to the licensee of contracts for the availability or use of Balancing Services and associated costs, excluding costs within CSOBM_t but including charges made by the licensee for the provision of Balancing Services to itself;

TotAdj_t means the amount of any adjustment as provided in paragraph 4.2.3;

OM_t means an amount representing the revenue from the provision of balancing services to others, derived in accordance with Part C;

SOTOC_t means the SO-TO cost allowance term, calculated in accordance with Special Condition 4.4 (SO-TO Mechanism);

LOCTRU_t has the value of:

OCTRU_t 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_t for Regulatory Years commencing on or after 1 April 2023 is zero; and

BSUoSCOVID_t 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.

BSUoSEXC_t means for Regulatory Year 2022/23 the total cost of the Exceptional Costs Support Scheme incurred in 2021/22, including any administrative or financing cost borne by the system operator, as per Section 14.30 of CUSC and for other Regulatory Years thereafter the value of this term will be zero.

Part B: Balancing Services Activity adjustments (TotAdj_t)

4.2.3 For the purposes of paragraph 4.2.2, the term TotAdj_t 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_t 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_t 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_t in respect of 2020/21, with the prior written consent of the Authority for Regulatory Year 2021/22 only; and
- (d) the difference in value of financing costs, as a result of updating the forecast SONIA rate used to calculate the recovery of 2022/23 BSUoSEXC_t to actual SONIA rates as agreed by the Authority for Regulatory Year 2023/24 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_t or BSCC_t.

Schedule 3: Relevant Licence Holders⁶

National Grid Electricity System Operator Limited

⁶ [List of all electricity licensees including suppliers | Ofgem](#)